



COMPREHENSIVE ANNUAL FINANCIAL REPORT for the fiscal year ended June 30, 2010



**Teachers' Retirement System of the State of Illinois
a component unit of the State of Illinois**

Statement of Purpose

Retirement Security for Illinois Educators

Mission Statement

Safeguard benefit security through committed staff, engaged members, and responsible funding.

Fiscal Year Highlights

	2010	2009
Active contributing members	170,275	169,158
Inactive noncontributing members	104,222	101,606
Benefit recipients*	97,754	94,424
Total membership	372,251	365,188
Actuarial accrued liability (AAL)	\$77,293,198,000	\$73,027,198,000
Less actuarial value of assets (smoothed assets beginning in 2009)	37,439,092,000	38,026,044,000
Unfunded actuarial accrued liability (UAAL)	\$39,854,106,000	\$35,001,154,000
Funded ratio (% of AAL covered by assets, based on smoothed assets beginning in 2009)	48.4%	52.1%
Total fund investment return (loss), net of fees	12.9%	(22.7%)
Expenses		
Benefits paid	\$3,927,838,363	\$3,653,713,951
Refunds paid	60,349,779	53,709,137
Administrative expenses	16,950,679	17,387,936
Total expenses	\$4,005,138,821	\$3,724,811,024
Income		
Member contributions	\$899,401,028	\$876,182,122
Employer contributions	171,420,549	152,328,853
State of Illinois contributions	2,080,729,055	1,451,591,716
Total investment income (loss)	3,679,642,960	(8,688,285,511)
Total income	\$6,831,193,592	(\$6,208,182,820)

* Benefit recipients includes retiree, disability, and survivor beneficiaries.

Many thanks to the teachers and retirees who represent the membership within our retirement system in this year's report. Thanks also to the students (and parents) who donated time for this project.

The cover photo and several other noted photographs were taken by TRS employee Michael Bracey. All other photographs were taken by TRS Communications Department employees Jael Dunn and Kathy Pearce.



Retired reading teacher Nancy of Oak Park with Katherine.

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Teachers' Retirement System of the State of Illinois
a component unit of the State of Illinois
2815 W. Washington | P.O. Box 19253 | Springfield, Illinois 62794-9253
<http://trs.illinois.gov>

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History teacher Mario of Springfield with Bryce.

I N T R O D U C T I O N

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Teachers' Retirement System
of the State of Illinois

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.




President


Executive Director



Letter of Transmittal

December 22, 2010

To the Board of Trustees and TRS Members:

We are pleased to present the *Comprehensive Annual Financial Report* (CAFR) for the Teachers' Retirement System of the State of Illinois (TRS) for the fiscal year ended June 30, 2010. This year's report is one of the first external publications to use the new logo that has been adopted for the retirement system (see upper left). The new logo emphasizes people.

Our goal with this image is to send several messages at once. The apple is, of course, a universal symbol of education. We want to honor teachers and their contributions to our state and local communities. The small hand on the left, the student, represents all of society and can be thought of as thanking the teacher with the apple. The larger hand on the right represents our members. Both hands, together with the apple, also represent the everlasting connections between generations – bound together through the gift of education. Second, the gift of an apple is, in its most literal sense, meant to sustain the teacher through the day. Similarly, the goal of TRS is to sustain teachers in their retirement. They have earned what they receive. Third, the use of hands speaks to our reoccurring message that we are all about people. We have surrounded the image with our statement of purpose, "Retirement Security for Illinois Educators," which was adopted in 2001.

We also have incorporated the current "TRS" logo into the new mark for a couple of reasons: One, it is familiar to our members. Two, the "TRS" element can be used by itself on forms and paper, as needed and appropriate. Mindful of the state's budget situation, TRS will not go through the expensive process of redoing all stationary, forms, publications and signs on the outside of the buildings at once. The new logo will be added to publications, forms, letterhead and other items when they are changed or replenished.

This year's report uses the theme of our new logo with photographs of teachers we serve throughout the state. It also complies with the state law that requires its annual creation. It is intended to provide financial, investment, actuarial, and statistical information in a single publication. TRS management and staff are responsible for the accuracy and completeness of this report and for ensuring that all material disclosures have been made. A framework of internal controls is maintained to establish reasonable assurance that assets are safeguarded, transactions are accurately executed, and financial statements are fairly presented.

Profile of TRS

TRS was established by the State of Illinois on July 1, 1939, to provide retirement, disability, and death benefits to teachers employed by Illinois public elementary and secondary schools outside the city of Chicago. A 13-member Board of Trustees governs TRS. The Board includes the state superintendent of education, four members of TRS who are elected by active members, six representatives of the public who are appointed by the governor, and two retired members who are elected by annuitants. The Board of Trustees appoints the executive director, who is responsible for the detailed administration of TRS.

The annual budget for TRS administrative expenses is prepared by staff and approved by the Board of Trustees. The TRS annual operating budget request is prepared in conjunction with a review of the long-range strategic plan.

Financial Information

Our staff issues a CAFR within six months of the close of each fiscal year. The report contains basic financial statements presented in conformity with generally accepted accounting principles (GAAP) within guidelines established by the Governmental Accounting Standards Board (GASB).

A system of internal controls helps us monitor and safeguard assets and promote efficient operations. Each year TRS's financial statements, records, and internal controls are examined by special assistant auditors employed by the Illinois Auditor General. In addition, an annual compliance attestation examination is performed to review compliance with applicable statutes and codes. The Independent Auditors' Report on TRS's financial statements is included in the Financial Section of this report.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

Revenues and Expenses

The three sources of TRS funding include member contributions, investment income, and employer contributions through state appropriations and payments by school districts. TRS expenses include payments of benefits, refunds, and administrative expenses. Negative amounts are shown in parentheses () throughout this report.

Revenues (\$ millions)

Source	2010	2009	Increase	
			Amount	% Change
Member contributions	\$899	\$876	\$23	2.6%
State of Illinois	2,081	1,452	629	43.3
Employer contributions	171	152	19	12.5
Total investment income/(loss)	3,680	(8,688)	12,368	142.4
Total	\$6,831	(\$6,208)	\$13,039	210.0%

Expenses (\$ millions)

Source	2010	2009	Increase	
			Amount	% Change
Benefits payments	\$3,928	\$3,654	\$274	7.5%
Refunds	60	54	6	11.1
Administrative/Other	17	17	0	0
Total	\$4,005	\$3,725	\$280	7.5%

TRS staff and the Board of Trustees will remain vigilant in our efforts to improve the retirement system's funded status for our current and future members. We will continue to invest prudently for the benefit of our membership and for the long-term success of the retirement system. The TRS Board and staff believe the overall investment strategy remains sound.

Investments

The TRS investment portfolio had a strong year, returning 13.5 percent, gross of fees, for the fiscal year ending June 30, 2010. Total TRS investments increased by approximately \$2.5 billion during the year ending June 30, 2010.

The Investment Section of this report contains a summary of the portfolio and investment activities.

Funding

During the year ended June 30, 2010, the funded ratio of the Teachers' Retirement System decreased from 52.1 percent to 48.4 percent. The actuarial value of assets at year end was \$37.4 billion and the actuarial accrued liability was \$77.3 billion. The decline in the funded ratio was due to asset sales and the continued phase-in of 2009 investment losses that were partially recognized in FY09, with the remainder recognized in fiscal years 2010 through 2013. The investment losses recognized in 2010 were partially offset by investment gains earned in FY10 and recognized in fiscal years 2010 through 2014.

The Actuarial Section of this report contains the actuary's letter and further information on TRS funding.

Major Initiatives

In 2006, the TRS Board and staff members composed the following TRS mission statement "*Safeguard benefit security through committed staff, engaged members, and responsible funding.*" This statement reminds us of our commitment to make decisions that benefit and stabilize the retirement system. In the future, we will continue to prudently invest for the gain of our membership and stress the importance of adequate funding.

GFOA Award

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to TRS for its *Comprehensive Annual Financial Report* for the fiscal year ended June 30, 2009. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

To be awarded the certificate, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. TRS has received a certificate for the last 21 years. We believe our current report continues to meet the program requirements and are submitting it to the GFOA for consideration again this year.

Acknowledgements

Information for this report was gathered by and reflects the combined efforts of TRS staff under the leadership of the Board of Trustees and the acting executive director. It is intended to provide complete and reliable information as a basis for making management decisions, to determine our compliance with legal provisions, and as a means of determining responsible stewardship of the assets contributed by members and their employers.

This report is made available to members of the General Assembly, participating employers, and to other interested persons by request. The participating employers of TRS form a link between TRS and its mem-

bers. Their cooperation contributes significantly to our success. We hope all recipients of this report find it informative and useful. This report is also available to the general public on our Web site, trs.illinois.gov.

We would like to take this opportunity to express our gratitude to staff, professional consultants, and others who have worked so diligently to ensure TRS's successful operation.

A stylized, handwritten signature in black ink, appearing to be 'RSR'.

R. Stanley Rupnik, CFA
Acting Executive Director
and Chief Investment Officer

A handwritten signature in black ink that reads 'Jana Bergschneider'.

Jana Bergschneider, CPA
Director of Administration

Board of Trustees

As of December 1, 2010



**Christopher A. Koch,
Ed.D.**
President
Bloomington



Molly Phalen
Vice President
Rockford



Marcia Boone
O'Fallon



Michael Busby
Kenilworth



Jan Cleveland
Carmi



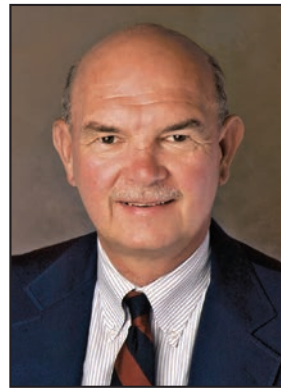
Livia Kiser
Downers Grove



Cinda Klickna
Rochester



Sharon Leggett
Evanston



Bob Lyons
Hoffman Estates



Sidney Marder
Springfield



Cynthia O'Neill
Carlyle



Janice Reedus
Indian Head Park



Sonia Walwyn
Naperville

Organizational Structure

Executive Staff Members as of December 1, 2010

Board of Trustees



Stan Rupnik, CFA
Acting Executive Director
and Chief Investment Officer



Jana Bergschneider, CPA
Director of
Administration



Kathleen Farney, CEBS
Director of
Research



Rich Frankenfeld
Director of
Outreach



Tom Gray
General Counsel



Gina Larkin
Director of
Human Resources



Kathy Pearce
Communications
Manager



Sally Sherman
Director of
Member Services



Stacy Smith, CPA
Director of
Internal Audit



Dave Urbanek
Public Information
Officer

Consulting and Professional Services

Actuary

Buck Consultants, LLC
Chicago, Illinois

External Auditors

(As special assistants to the Office of the Auditor General)

BKD, LLP
Decatur, Illinois

Information Systems

CTG Inc. of Illinois
Springfield, Illinois

Share Point Business Solutions, Inc.
Springfield, Illinois

Systems Evaluation & Analysis
Springfield, Illinois

Sentinel Technologies
Chicago, Illinois

SunGard Availability Services
Chicago, Illinois

Consultants

Callan Associates Inc.
(real estate)
San Francisco, California

PCG Asset Management LLC
(private equity)
La Jolla, California

R.V. Kuhns & Associates, Inc.
(general investment)
Portland, Oregon

Leinenweber Baroni & Daffada Consulting LLC
(legislative)
Springfield, Illinois

Risk Resources
(real estate insurance consulting)
Elmhurst, Illinois

Legal Services

Cavanagh & O'Hara
Springfield, Illinois

Holland & Knight LLP
Chicago, Illinois

Loewenstein Hagen & Smith PC
Springfield, Illinois

Sorling Northrup Hanna Cullen Cochran Ltd.
Springfield, Illinois

Heyl Royster Voelker & Allen
Springfield, Illinois

Howard & Howard Attorneys PC
Peoria, Illinois

Mayer Brown LLP
Chicago, Illinois

Master Trustee

State Street Bank and Trust Company
Boston, Massachusetts



Spanish teacher Elaine of Springfield with Natalie.

F I N A N C I A L

Independent Auditors' Report

The Honorable William G. Holland, Auditor General – State of Illinois

Board of Trustees, Teachers' Retirement System of the State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying statements of plan net assets of the Teachers' Retirement System of the State of Illinois (System), a component unit of the State of Illinois, as of June 30, 2010 and 2009, and the related statements of changes in plan net assets for the years then ended, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2010 and 2009, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated December 20, 2010 on our consideration of the System's internal control over financial reporting and on our tests of the System's compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The accompanying management's discussion and analysis and schedules of funding progress and contributions from employers and other contributing entities as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the System's basic financial statements. The other supplementary information in the financial section and the accompanying introduction, investments, actuarial and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information in the financial section has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements as of and for the years ended June 30, 2010 and 2009, taken as a whole. The introduction, investments, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

BKD, LLP

December 20, 2010

Management's Discussion and Analysis

Our discussion and analysis of the Teachers' Retirement System of the State of Illinois provides an overview of financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the Letter of Transmittal in the Introduction Section on page 7 and the Basic Financial Statements and related notes that follow this discussion.

Financial Highlights

- TRS net assets at June 30, 2010 were \$31.3 billion.
- During FY10, TRS net assets increased \$2.8 billion.
- Contributions from members, employers, and the state were \$3,152 million, an increase of \$671 million or 27.1 percent for the fiscal year.
- Total investment gain was \$3,680 million, compared to investment loss of \$8,688 million in FY09, an increase of \$12,368 million.
- Benefits and refunds paid to members and annuitants were \$3,988 million, an increase of \$281 million or 7.6 percent compared to FY09.
- Total actuarial accrued liability was \$77.3 billion at June 30, 2010.
- The unfunded actuarial accrued liability increased from \$35.0 billion at June 30, 2009 to \$39.9 billion at June 30, 2010. The funded ratio decreased from 52.1 percent at June 30, 2009 to 48.4 percent at June 30, 2010. The unfunded liability and funded ratio for both years are calculated using a smoothed value of assets, as required under Public Act 96-0043.

The Basic Financial Statements contained in this section of the *Comprehensive Annual Financial Report* consist of:

Statements of Plan Net Assets. This statement reports the pension trust fund's assets, liabilities, and resultant net assets available to pay benefits at the end of the fiscal year. It is the balance sheet for the pension system and reflects the financial position of the Teachers' Retirement System as of June 30, 2010.

Statements of Changes in Plan Net Assets. This statement details transactions that occurred during the fiscal year. It is the income statement of TRS and reflects the revenues and expenses recorded throughout the fiscal year. The Statements of Changes in Plan Net Assets supports the change in the value of the net assets reported on the Statements of Plan Net Assets.

Notes to the Financial Statements. The notes are an integral part of the financial statements and include additional information not readily evident in the statements themselves. The required supplementary information and other schedules following the notes to the financial statements provide historical and additional detailed information considered useful in evaluating the pension system's financial condition. The following are condensed comparative financial statements of the TRS pension trust fund.

Condensed Comparative Statement of Plan Net Assets as of June 30

	2010	Percentage Change	2009	Percentage Change	2008
Cash	\$11,878,310	208.6%	\$3,849,113	4.9%	\$3,668,043
Receivables and prepaid expenses	170,460,327	(36.3)	267,580,363	(33.8)	404,110,007
Investments	31,482,144,166	8.7	28,961,352,329	(26.1)	39,209,046,996
Invested securities lending collateral	3,501,404,035	(17.7)	4,251,858,945	(4.4)	4,445,553,283
Capital assets	4,032,313	8.8	3,707,543	45.5	2,548,814
Total assets	35,169,919,151	5.0	33,488,348,293	(24.0)	44,064,927,143
Total liabilities	3,846,134,937	(22.9)	4,990,618,850	(11.4)	5,634,203,856
Net assets	<u>\$31,323,784,214</u>	9.9%	<u>\$28,497,729,443</u>	(25.8%)	<u>\$38,430,723,287</u>

Condensed Comparative Statement of Changes in Plan Net Assets For the Year Ended June 30

	2010	Percentage Change	2009	Percentage Change	2008
Contributions	\$3,151,550,632	27.1%	\$2,480,102,691	21.7%	\$2,037,188,622
Total investment income/(loss)	3,679,642,960	142.4	(8,688,285,511)	(331.2)	(2,014,902,366)
Total additions/(reductions)	6,831,193,592	210.0	(6,208,182,820)	(27,956.6)	22,286,256
Benefits and refunds	3,988,188,142	7.6	3,707,423,088	6.4	3,484,267,356
Administrative expenses	16,950,679	(2.5)	17,387,936	4.7	16,613,364
Total deductions	4,005,138,821	7.5	3,724,811,024	6.4	3,500,880,720
Net increase/(decrease) in net assets	2,826,054,771		(9,932,993,844)		(3,478,594,464)
Net assets beginning of year	<u>28,497,729,443</u>	(25.8)	<u>38,430,723,287</u>	(8.3)	<u>41,909,317,751</u>
Net assets end of year	<u>\$31,323,784,214</u>	9.9%	<u>\$28,497,729,443</u>	(25.8%)	<u>\$38,430,723,287</u>

Financial Analysis

TRS was created to provide retirement, survivor, and disability benefits to qualified members. Increases or decreases in plan net assets serve as useful indicators of TRS's financial position. Net assets available to pay benefits were \$31.3 and \$28.5 billion at June 30, 2010 and 2009, respectively. Net assets increased \$2.8 billion in FY10 and decreased \$9.9 billion in FY09.

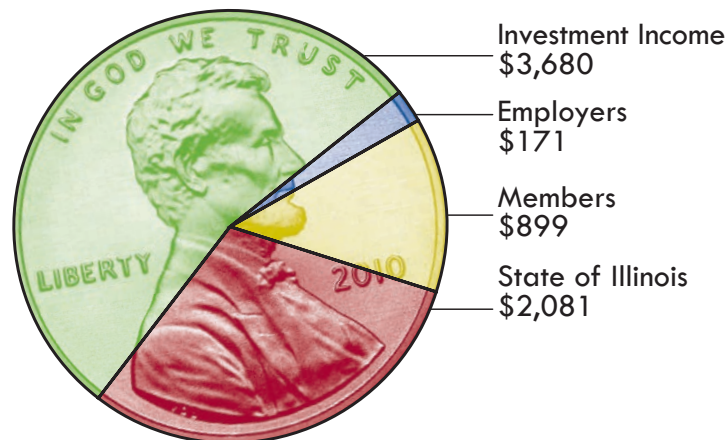
Contributions

Contributions increased \$671 million and \$443 million during FY10 and FY09, respectively. During FY10, member contributions increased \$23 million and employer contributions from school districts increased \$19 million. During FY09, member contributions increased \$11 million and employer contributions from school districts increased \$22 million. The majority of the increase in the employer contributions from school districts in FY10 is attributable to an increase in the federal funds rate and an increase in employer contributions for the 2.2 formula.

The State of Illinois makes appropriations to TRS. Receipts from the State of Illinois increased \$629 million in FY10 compared to an increase of \$411 million in FY09. The increase in FY10 occurred because TRS received the full contribution rate required by state statute. The statute required a higher percent of pay because FY10 was the last year of the 15-year ramp.

State funding law provides for a 50-year funding plan that includes a 15-year phase-in period. Minimum state contribution rates were specified in the statute for FY99 through FY04. In FY05, state contributions were reduced in accordance with funding revisions enacted when pension obligation bonds were issued in 2003. In FY06 and FY07, state contributions were based on dollar amounts specified by Public Act 94-0004. The legislation contained a two-year funding reduction of approximately 50 percent or over \$1 billion for TRS. In FY08 and FY09, state contributions increased according to the phase-in schedule to reach a level percent of payroll by FY10. The overall goal of 90 percent funding in the year 2045 is unchanged.

Revenues by Type for the Year Ended June 30, 2010 (\$ millions)

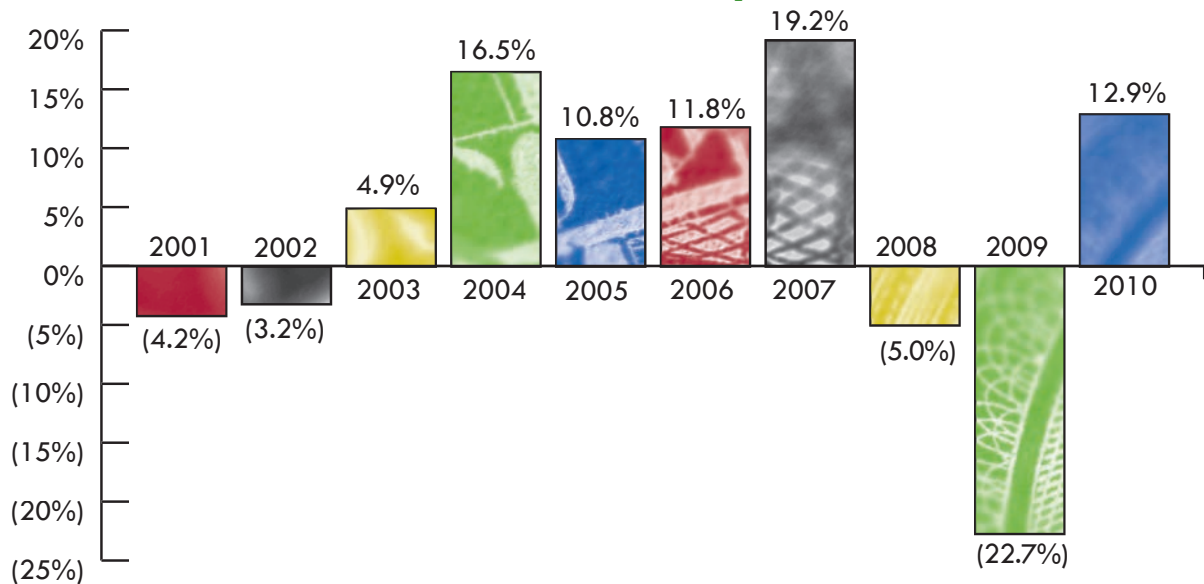


Investments

The TRS trust fund is invested according to law under the “prudent person rule” requiring investments to be managed solely in the interest of fund participants and beneficiaries. Principles guiding the investment of funds include preserving the long-term principal of the trust fund and maximizing total return within prudent risk parameters.

Following two years of losses, global markets showed signs of recovery during the fiscal year. Within these improving market conditions, the TRS investment portfolio had a strong year, returning 13.5 percent, gross of fees, for the fiscal year ending June 30, 2010. Total TRS investment assets increased approximately \$2.5 billion during the year.

Annual Rate of Return (net of investment expenses)



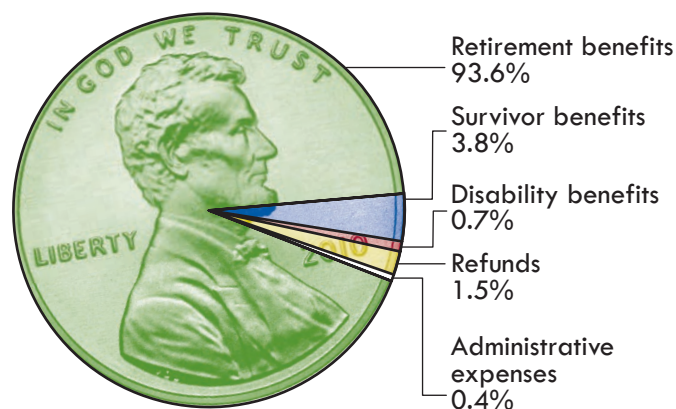
The annual rate of return is an indication of TRS investment performance and is provided by the TRS master trustee.

Benefits and Refunds

Retirement, survivor, and disability benefit payments increased \$274 and \$230 million during FY10 and FY09, respectively. During FY10, benefit payments increased from \$3,654 million with 94,424 recipients in FY09 to \$3,928 million with 97,754 recipients. The overall increase in benefit payments is due to an increase in retirement benefits and number of retirees. Retirement benefits were higher as a result of annual increases in retirement benefits and an increase in the number of retirees from 84,510 as of June 30, 2009 to 87,654 as of June 30, 2010.

Refunds of contributions increased \$6 million in FY10 and decreased \$6 million in FY09. The increase during FY10 is the result of a greater number of 2.2 upgrade refunds and ERO refunds.

Expenses by Type for the Year Ended June 30, 2010

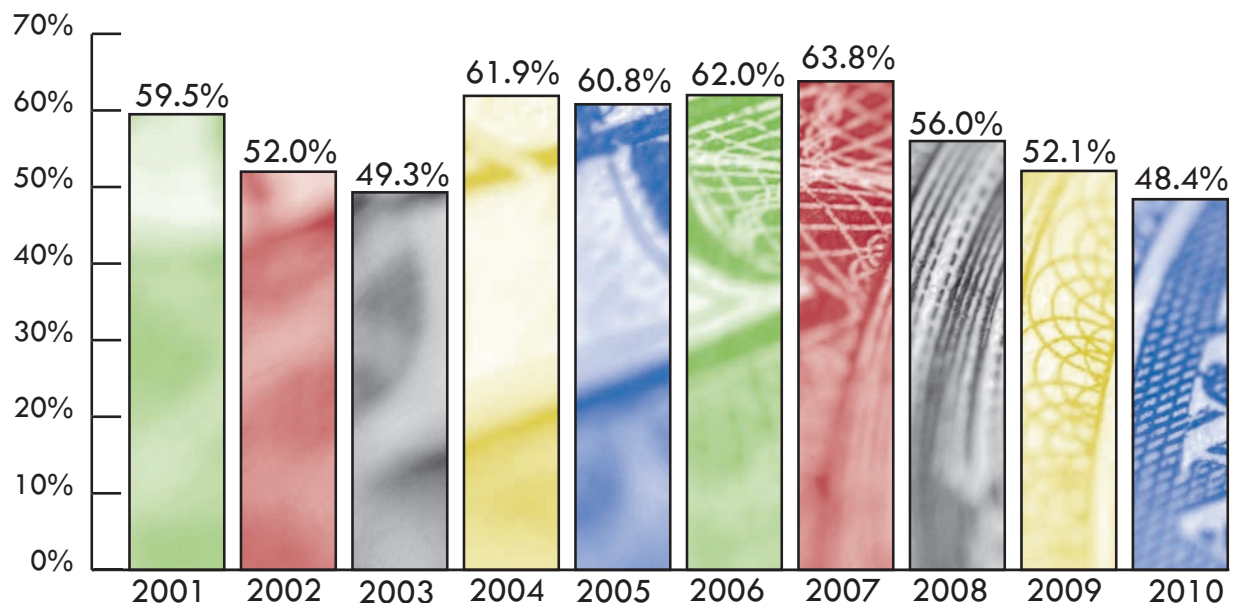


Actuarial

The annual actuarial valuation measures the total liability for all benefits earned to date. The accrued liability is a present value estimate of all the benefits that have been earned to date but not yet paid. The actuarial accrued liability increased \$4.3 and \$4.4 billion during FY10 and FY09, respectively, to \$77.3 billion at June 30, 2010 and \$73.0 billion at June 30, 2009. The unfunded liability is the present value of future benefits payable that are not covered by the actuarial value of assets as of the valuation date. The unfunded liability increased \$4.9 billion during FY10 to \$39.9 billion at June 30, 2010 compared to an increase of \$4.8 billion during FY09 to \$35.0 billion at June 30, 2009. The funded ratio reflects the percentage of the accrued liability covered by the actuarial value of assets. The funded ratio decreased to 48.4 percent at June 30, 2010 from 52.1 percent at June 30, 2009.

In 2010 and 2009, the unfunded liability and funded ratio are based on a smoothed value of assets. Public Act 96-0043 required the five state retirement systems to begin smoothing actuarial gains and losses on investments over a five-year period, beginning with the valuation for the year ended June 30, 2009.

Funded Ratio based on Actuarial Value of Assets



The funded ratio is the ratio of assets to liabilities. An increase in this ratio indicates an improvement in TRS's ability to meet future benefit obligations. The actuarial value of assets was based on market value through 2008 and five-year smoothing beginning in 2009.

Legislation

GASB Statement Number 34 requires the Management Discussion and Analysis to include a description of currently known facts expected to have a significant effect on TRS's financial position.

Public Act 96-0889, which was signed into law in the spring of 2010, adds a new section to the Pension Code that applies different benefits to anyone who first contributes to TRS on or after January 1, 2011 and does not have any previous service credit with a pension system that has reciprocal rights with TRS. These members are referred to as "Tier II" members. Changes from the "Tier I" pension law include raising the minimum eligibility to draw a retirement benefit to age 67 with 10 years of service, initiating a cap on the salaries used to calculate retirement benefits, and limiting cost-of-living annuity adjustments to the lesser of 3 percent or $\frac{1}{2}$ of the annual increase in the Consumer Price Index, not compounded. The retirement formula is unchanged.

The new pension law does not apply to anyone who has TRS service prior to January 1, 2011. These members remain participants of Tier I, not Tier II.

Basic Financial Statements

Teachers' Retirement System of the State of Illinois Statements of Plan Net Assets as of June 30, 2010 and 2009

	2010	2009
Assets		
Cash	\$11,878,310	\$3,849,113
Receivables and prepaid expenses		
Member payroll deduction	396,472	24,807,518
Member contributions	50,954,327	54,894,577
Employer contributions	18,699,097	17,360,100
Investment income	94,799,065	163,986,012
Prepaid expenses	5,611,366	6,532,156
Total receivables and prepaid expenses	170,460,327	267,580,363
Investments, at fair value		
Fixed income	6,551,272,735	6,374,168,717
Equities	14,411,659,754	13,519,469,802
Real estate	3,252,463,291	3,380,826,272
Short-term investments	683,859,686	1,062,916,049
Private equity investments	2,990,955,411	2,344,035,473
Real return	2,295,427,875	1,531,130,405
Absolute return	1,231,558,537	719,854,863
Foreign currency	68,454,294	35,797,184
Derivatives	(3,507,417)	(6,846,436)
Total investments	31,482,144,166	28,961,352,329
Invested securities lending collateral		
Short-term investments	2,507,244,302	4,010,209,767
Fixed income	994,125,404	241,649,178
Securities lending collateral w/State Treasurer	34,329	0
Total invested securities lending collateral	3,501,404,035	4,251,858,945
Property and equipment, at cost, net of accumulated depreciation of \$6,129,847 and \$5,601,711 in 2010 and 2009, respectively	4,032,313	3,707,543
Total assets	35,169,919,151	33,488,348,293
Liabilities		
Benefits and refunds payable	5,337,764	5,317,072
Administrative and investment expenses payable	64,443,676	104,848,696
Payable to brokers for unsettled trades, net	274,949,462	628,594,137
Securities lending collateral	3,501,404,035	4,251,858,945
Total liabilities	3,846,134,937	4,990,618,850
Net assets held in trust for pension benefits	\$31,323,784,214	\$28,497,729,443

The accompanying notes are an integral part of these statements.

Teachers' Retirement System of the State of Illinois

Statements of Changes in Plan Net Assets

Years Ended June 30, 2010 and 2009

	2010	2009
Additions		
Contributions		
Members	\$899,401,028	\$876,182,122
State of Illinois	2,080,729,055	1,451,591,716
Employers		
Early retirement	36,756,995	42,674,690
Federal funds	74,449,701	52,948,374
2.2 benefit formula	53,953,836	51,997,483
Excess salary/sick leave	6,260,017	4,708,306
Total contributions	<u>3,151,550,632</u>	<u>2,480,102,691</u>
Investment income		
From investment activities		
Net appreciation/(depreciation) in fair value	2,999,370,225	(9,453,113,362)
Interest	291,830,747	367,244,822
Real estate operating income, net	174,189,540	191,035,234
Dividends	344,648,907	349,559,434
Private equity income	32,412,430	11,225,007
Other investment income	16,846,619	10,634,455
Investment activity income/(loss)	3,859,298,468	(8,523,414,410)
Less investment expense	(200,766,937)	(192,814,446)
Net investment activity income/(loss)	<u>3,658,531,531</u>	<u>(8,716,228,856)</u>
From securities lending activities		
Securities lending income	19,544,789	47,582,364
Securities lending management fees	(2,347,093)	(3,498,300)
Securities lending borrower rebates	3,913,733	(16,140,719)
Net securities lending activity income	<u>21,111,429</u>	<u>27,943,345</u>
Total investment income/(loss)	<u>3,679,642,960</u>	<u>(8,688,285,511)</u>
Total additions/(reductions)	<u>6,831,193,592</u>	<u>(6,208,182,820)</u>
Deductions		
Retirement benefits	3,749,665,623	3,486,697,218
Survivor benefits	151,073,880	140,694,965
Disability benefits	27,098,860	26,321,768
Refunds	60,349,779	53,709,137
Administrative expenses	16,950,679	17,387,936
Total deductions	<u>4,005,138,821</u>	<u>3,724,811,024</u>
Net increase/(decrease)	<u>2,826,054,771</u>	<u>(9,932,993,844)</u>
Net assets held in trust for pension benefits		
Beginning of year	28,497,729,443	38,430,723,287
End of year	<u>\$31,323,784,214</u>	<u>\$28,497,729,443</u>

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

A. Plan Description

1. Reporting Entity

The Teachers' Retirement System of the State of Illinois (TRS) is the administrator of a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). Membership is mandatory for all full-time, part-time, and substitute public school personnel employed outside of Chicago in positions requiring certification. Persons employed at certain state agencies are also members. Established by the State of Illinois, TRS is governed by the Illinois Pension Code (40 ILCS 5/16). TRS is a component unit of the State of Illinois and is included in the state's financial statements as a pension trust fund.

TRS uses criteria established by the Governmental Accounting Standards Board (GASB) to determine whether other entities should be included within its financial reporting entity. Based on the criteria, TRS includes no other entities in these financial statements.

2. Employers

Members of TRS are employed by school districts, special districts, and certain state agencies. Each employer remits member contributions to TRS. Employers are responsible for employer contributions for teachers paid from federal funds, employer contributions for the 2.2 formula increase, and for the employer's portion of the Early Retirement Option contributions. As a result of Public Act 94-0004, which became law on June 1, 2005, employers are also required to pay the cost of pension benefits resulting from end-of-career salary increases over 6 percent. Public Act 94-1057, which became law on July 31, 2006, provides additional exemptions from employer contributions for excess salary increases. Some of these exemptions are permanent while others are available for a limited time period. Employers also pay a contribution for sick leave days granted in excess of the member's normal annual allotment and used for service credit at retirement. The contributions do not apply to salary increases awarded or sick leave granted under contracts or collective bargaining agreements entered into, amended, or renewed prior to June 1, 2005. In addition, the State of Illinois provides employer contributions. For information about employer contributions made by the State of Illinois, see "Funding Status and Funding Progress" on page 27.

Number of Employers (as of June 30)

	2010	2009
Local school districts	867	867
Special districts	140	140
State agencies	23	23
Total	<u>1,030</u>	<u>1,030</u>

3. Members

TRS Membership (as of June 30)

	2010	2009
Retirees and beneficiaries receiving benefits	97,754	94,424
Inactive members entitled to but not yet receiving benefits	104,222	101,606
Active members	170,275	169,158
Total	<u>372,251</u>	<u>365,188</u>

4. Benefit Provisions

Governed by the Illinois Pension Code (40 ILCS 5/16), which is subject to amendment by the Illinois General Assembly and approval by the Governor, TRS provides retirement, death, and disability benefits. A member qualifies for an age retirement annuity after meeting one of the following requirements: age 62 with five years of service credit; age 60 with 10 years; or age 55 with 20 years. If a member retires between the ages of 55 and 60 with fewer than 35 years of service, the annuity will be reduced at the rate of 0.50 percent for each month the member is under age 60. A member who is age 55 and has at least 20 and fewer than 35 years of service credit may use the Early Retirement Option (ERO) to avoid a discount for early retirement if retirement occurs within six months of the last day of service requiring contributions and if the member and employer both make a one-time contribution to TRS.

A member with fewer than five years of creditable service and service on or after July 1, 1947, is entitled to a single-sum benefit payable once he or she reaches age 65.

A retirement benefit is determined by the average salary of the four highest consecutive salary rates within the last 10 years of creditable service and the percentage of average salary to which the member is entitled. This percentage is determined by the following formula for service earned before July 1, 1998: 1.67 percent for each of the first 10 years, plus 1.9 percent for each of the next 10 years, plus 2.1 percent for each of the next 10 years, plus 2.3 percent for each year over 30 years. The maximum retirement benefit, 75 percent of average salary, is achieved with 38 years of service under the graduated formula.

Public Act 90-0582 improved retirement benefits for TRS members by changing the rate at which members accrue benefits beginning July 1, 1998, from a graduated rate to a flat rate equal to 2.2 percent of final average salary. Members may attain the maximum 75 percent benefit with 34 years of service under the 2.2 benefit formula. Members retiring on or after the effective date have the option of upgrading their service earned prior to July 1, 1998, to the flat 2.2 percent formula by making a payment to TRS. Additionally, for members who continue to teach, every three full years worked after July 1, 1998, count toward a full one-year reduction of the years to be upgraded.

A money purchase (actuarial) benefit is payable if it results in a higher annuity than either the graduated or 2.2 formula. The 75 percent cap does not apply to the money purchase benefit. Public Act 94-0004 eliminates the money purchase benefit for persons who become TRS members after June 30, 2005.

Essentially all retirees receive an annual 3 percent increase in the current retirement benefit beginning January 1 following the attainment of age 61 or January 1 following the first anniversary in retirement, whichever is later.

If a member leaves covered employment, TRS will refund a member's retirement contributions upon request. The refund consists of actual contributions, excluding the 1 percent death benefit contribution.

5. Funding Status and Funding Progress

The funded status of the plan as of June 30, 2010, the most recent actuarial valuation date, follows. The actuarial value of assets is rounded to the nearest thousand to be consistent with actuarial disclosures.

Actuarial Valuation Date	Actuarial Value of Assets*	Actuarial Accrued Liability	Funded Ratio*	Unfunded Actuarial Accrued Liability*	Annual Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
6/30/09	\$38,026,044,000	\$73,027,198,000	52.1%	\$35,001,154,000	\$8,945,021,000	391.3%
6/30/10	37,439,092,000	77,293,198,000	48.4	39,854,106,000	9,251,139,000	430.8

* Five-year prospective smoothing began in FY09.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additional information regarding assumptions used in the actuarial valuations is as follows*:

Actuarial Cost Method:	Projected unit credit
Amortization Method:	
a) For GASB Statement #25 reporting purposes	Level percent of payroll
b) Per state statute	15-year phase-in to a level percent of payroll reached in FY10; stay at level percent of pay until a 90% funding level is achieved in FY45
Remaining Amortization Period:	
a) For GASB Statement #25 reporting purposes	30 years, open
b) Per state statute	35 years, closed (June 30, 2010) 36 years, closed (June 30, 2009)
Asset Valuation Method:	Five-year smoothing, prospective, beginning with June 30, 2009 valuation
Actuarial Assumptions:	
Investment rate of return	8.5%
Projected salary increases	6.0% (at age 69) to 11.1% (at age 20); composite 7.0%; includes inflation and real wage growth (productivity) assumptions
Group size growth rate	0%
Assumed inflation rate	3.5%
Real wage growth (productivity)	1.2%
Post-retirement increase	3% compounded
Mortality table	1995 Buck Mortality Tables projected 16 years for males and one year for females. For beneficiaries, projected one year for both males and females, then rated forward two years for males and forward one year for females. Projected mortality improvements using Society of Actuaries Mortality Projection Scale AA are phased in over four years, beginning July 1, 2007.

** See the Actuarial section for additional assumptions added in the 2010 valuation to project liabilities for Tier II members (hired beginning January 1, 2011).*

Member, employer, and state contributions are statutorily defined by the Illinois Pension Code (40 ILCS 5/16), which is subject to amendment by the Illinois General Assembly and approval by the Governor. Since July 1, 1995, state appropriations have been made through a continuing appropriation.

Effective July 1, 1998, member contributions increased from 8 percent to 9 percent of salary. These contributions are allocated as follows: 7.5 percent for retirement, 0.50 percent for post-retirement increases, and 1 percent for death benefits. The contribution rate changed from 9.0 percent to 9.4 percent effective

July 1, 2005 as a result of Public Act 94-0004. The additional 0.4 percent is to help cover the cost of ERO and is refundable if the member does not retire using ERO or if the ERO program terminates.

Employer contributions are made by or on behalf of employers from several sources. The State of Illinois provides the largest source of contributions through state appropriations from the Common School Fund. An additional source of state contributions has been the Educational Assistance Fund. Employers also make contributions for the 2.2 benefit formula and for teachers who are paid from federal funds. Additionally, employers contribute their portion of the cost of the Early Retirement Option and any excess salary increase or sick leave costs due.

On April 7, 2003, Public Act 93-0002 authorized the State of Illinois to issue \$10 billion in general obligation bonds for the purpose of making contributions to designated retirement systems. TRS was one of the designated retirement systems for the purpose of this new law. In addition, the Pension Contribution Fund was created as a special fund in the State Treasury.

On June 12, 2003, the State of Illinois issued \$10 billion in general obligation bonds, pension funding series of June 2003, and deposited the net bond proceeds of \$7,317,292,916 into the Pension Contribution Fund. Bond proceeds of \$2,682,707,084 were utilized

- to reimburse the General Revenue Fund \$2,160,000,000 for the last quarter of the state's FY03 required contributions and the total FY04 required contributions to the designated retirement systems,
- to fund \$481,038,334 in interest payments due December 1, 2003 and June 1, 2004 on the general obligation bonds, pension funding series of June 2003, and
- to fund bond issuance and other costs totaling \$41,668,750.

The net bond proceeds of \$7,317,292,916 were allocated among the five state-funded retirement systems to reduce their actuarial reserve deficiencies as provided in Public Act 93-0002. Pursuant to the amendments to the General Obligation Bond Act (30 ILCS 330/7.2), the Governor's Office of Management and Budget determined the percentage distribution of the proceeds. The allocation of the proceeds was based on the percentage distribution of the state's total actuarial reserve deficiency as of June 30, 2002.

TRS received an allocation of bond proceeds equal to \$4,330,373,948 on July 1, 2003. The monies were deposited into TRS's Master Trust account with The Northern Trust Company on July 2, 2003.

The \$4.330 billion in pension obligation bond proceeds received in FY04 were not counted as contributions towards TRS's annual actuarial funding requirements for FY04.

State funding law provides for a 50-year funding plan that includes a 15-year phase-in period. Minimum state contribution rates were specified in the statute for FY99 through FY04. In FY05, state contributions were reduced in accordance with funding revisions contained in the pension obligation bond law.

In FY06 and FY07, state contributions were based on dollar amounts specified by Public Act 94-0004. The legislation contains a two-year funding reduction of approximately 50 percent or over \$1 billion for TRS. Since FY08, state contributions have increased according to the ramp schedule to reach a level percent of payroll by FY10.

Public Act 96-0043, effective July 15, 2009, requires TRS to use a five-year smoothing method for asset valuation beginning on June 30, 2009. It first affects state contribution requirements in FY11. The act also

authorized the sale of pension notes; proceeds received in January 2010 fulfilled the remainder of the FY10 state funding requirement. The overall goal of 90 percent funding in the year 2045 is unchanged.

Administrative expenses are budgeted and approved by the TRS Board of Trustees. Funding for these expenses is included in the employer contribution, as determined by the annual actuarial valuation.

B. Summary of Significant Accounting Policies

1. Basis of Accounting

TRS's financial statements are prepared using the accrual basis of accounting. Member and employer contributions are recognized as revenues when due, pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and refunds are recognized as expenditures when they are due and payable in accordance with the terms of the plan.

2. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions to and deductions from net assets during the reporting period. Actual results could differ from these estimates.

3. New Accounting Pronouncements

In June 2007, GASB issued Statement No. 51, "Accounting and Financial Reporting for Intangible Assets." This statement establishes accounting and financial reporting requirements for intangible assets to improve comparability of such assets among state and local governments. The requirements of this statement are effective for periods beginning after June 15, 2009. TRS has implemented GASB 51 in the year ending June 30, 2010, with no significant financial statement impact.

In June 2008, GASB issued Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments." This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The requirements of this statement are effective for periods beginning after June 15, 2009. TRS has implemented GASB 53 in the year ended June 30, 2010. Additional disclosures have been added to Note D.

In June 2010, GASB issued Statement No. 59, "Financial Instruments Omnibus." This statement addresses updating and improving existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The provisions of this statement are effective for periods beginning after June 15, 2010.

4. Method Used to Value Investments

TRS reports investments at fair value. Fair value for publicly traded equities and real return funds is determined by using the closing price listed on national and over-the-counter securities exchanges as of June 30. Fair value for fixed income securities is determined principally by using quoted market prices provided by independent pricing services. Fair value for directly-owned real estate investments is determined by appraisals. Fair value for private equity investments, absolute return funds, non-publicly traded real return funds and partnership interests in real estate funds is determined by TRS staff and the general partners or investment managers in accordance with the provisions in the individual agreements. These agreements also require an independent audit be performed on an annual basis.

5. Property and Equipment

Equipment is stated on the basis of historical cost. Depreciation is computed using the straight-line method based upon the estimated useful lives of the assets. Office furniture and equipment are assigned a useful life of three to 10 years while vehicles are assigned a five-year life. TRS's office building is depreciated over 40 years. Intangible assets are reported as part of property and equipment, with software having an estimated useful life from three to five years.

6. Accrued Compensated Absences

When employment is terminated, TRS employees are entitled to receive compensation for all accrued unused vacation time and one-half of all unused sick leave earned through December 31, 1997. (Lump-sum payments for sick leave earned prior to January 1, 1984, are subject to a maximum of 60 days or 420 hours.) Accrued compensated absences as of June 30, 2010, and 2009 totaled \$1,617,453 and \$1,504,938, respectively, and are included as administrative and investment expenses payable.

7. Receivables

Receivables consist primarily of 1) member and employer contributions owed and yet to be remitted by the employing districts as of June 30, and 2) interest, dividends, real estate and private equity income owed to TRS as of June 30.

TRS assesses penalties for late payment of contributions and may collect any unpaid amounts from the employing districts by filing a claim with the regional superintendent of education or the Office of the Comptroller against future state aid payments to the employer. TRS considers these amounts to be fully collectible.

Members were previously allowed to enter into Payroll Deduction Program agreements with their employers to pay for their optional service balances, to repay refunds previously taken from TRS, to pay for their 2.2 benefit formula upgrade balances, or to pay estimated ERO contributions. TRS had outstanding balances in payroll deduction agreements totalling \$396,472 and \$24,807,518 as of June 30, 2010, and 2009, respectively.

TRS began phasing out the Payroll Deduction Program in FY08. Members were allowed to enter into new agreements through May 15, 2008. After that date, no new elections were accepted. The Payroll Deduction Program was discontinued on June 30, 2010. However, employers had until July 10, 2010 to remit June deductions.

8. Prior Period Reclassification

Certain prior year amounts have been reclassified on a basis consistent with the current year presentation.

9. Risk Management

TRS, as a component unit of the State of Illinois, provides for risks of loss associated with workers' compensation and general liability through the State's self-insurance program. TRS obtains commercial insurance for fidelity, surety, and property. No material commercial insurance claims have been filed in the last three fiscal years.

C. Cash

Custodial credit risk for deposits is the risk that in the event of a bank failure, TRS's deposits may not be returned. TRS has a formal policy to address custodial credit risk. The policy's purpose is to minimize custodial credit risk through proper due diligence of custody financial institutions and investment advisors; segregate safekeeping of TRS assets; establish investment guidelines; and endeavor to have

all investments held in custodial accounts through an agent, in the name of custodian's nominee, or in a corporate depository or federal book entry account system. For those investment assets held outside of the custodian, TRS will follow the applicable regulatory rules.

The non-investment bank balance and carrying amount of TRS's deposits were \$11,878,155 and \$11,878,310 at June 30, 2010, and \$4,825,486 and \$3,849,113 at June 30, 2009. Of the bank balance, \$11,877,810 and \$4,825,486 were on deposit with the state treasurer at June 30, 2010, and 2009, respectively. State treasurer deposits are in an internal investment pool collateralized at a third party custodial bank and are not subject to custodial credit risk. Certain investments of TRS with maturities of 90 days or less would be considered cash equivalents; these consist of bank-sponsored, short-term investment funds, commercial paper, and repurchase agreements. For financial statement presentation and investment purposes, TRS reports its cash equivalents as short-term investments in the Statements of Plan Net Assets.

For purposes of this disclosure, foreign currency held by investment managers is considered a deposit. However, for financial statement presentation and investment purposes, TRS considers foreign currency an investment asset. Uncollateralized foreign currency subject to custodial credit risk was \$68,454,294 and \$35,797,184 at June 30, 2010 and June 30, 2009, respectively.

D. Investments

1. Investment Policies

Through the Board of Trustees, as authorized in the Illinois Pension Code, TRS serves as fiduciary for the members' trust funds and is responsible for investment of those funds by authority of the "prudent person rule." This rule establishes a standard for all fiduciaries by specifying fiduciary responsibility with regard to the members' trust funds.

2. Investment Risk

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of a financial institution failure, TRS would not be able to recover the value of the investments in the possession of an outside party. TRS has a formal policy to address custodial credit risk.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to TRS. Credit risk exposure is dictated by each investment manager's agreement. Each portfolio is managed in accordance with investment guidelines that are specific as to permissible credit quality ranges, exposure levels within individual security quality rating tiers, and/or the average credit quality of the overall portfolio. Most guidelines allow managers to hold bonds rated Caa2 or better. However, in circumstances where position downgrades occur, investment managers have been given permission to hold securities due to circumstances such as a higher peer group rating from another nationally recognized statistical rating organization, the investment manager's internal ratings, or other mitigating factors.

As of June 30, 2010, TRS held the following fixed income investments with respective quality ratings. Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk.

Quality Rating	Corporate Debt Securities	Foreign Debt Securities	U.S. Agency Obligations	Commingled Funds	Securities Lending Collateral	Total
Aaa	\$492,355,834	\$590,322,587	\$2,059,283,400	-	\$280,757,130	\$3,422,718,951
Aa1	20,586,071	35,988,983	1,041,798	-	369,530,972	427,147,824
Aa2	97,533,313	66,272,495	28,775,075	-	213,949,247	406,530,130
Aa3	72,965,663	21,184,279	14,150,755	-	129,888,055	238,188,752
A1	113,261,803	118,611,128	18,512,839	-	-	250,385,770
A2	241,945,705	51,387,506	2,612,575	-	-	295,945,786
A3	152,491,630	32,239,381	22,961,828	-	-	207,692,839
Baa1	196,308,469	171,420,089	29,158,741	-	-	396,887,299
Baa2	261,879,317	72,500,229	21,793	-	-	334,401,339
Baa3	236,993,631	82,430,521	-	-	-	319,424,152
Ba1	169,913,124	21,367,442	14,219,524	-	-	205,500,090
Ba2	56,922,047	87,397,418	-	45,615,342	-	189,934,807
Ba3	101,504,265	17,769,942	-	-	-	119,274,207
B1	55,589,087	7,014,542	-	-	-	62,603,629
B2	63,816,797	14,910,482	-	-	-	78,727,279
B3	56,064,616	13,602,240	-	-	-	69,666,856
Caa1	41,916,969	-	-	-	-	41,916,969
Caa2	42,749,872	-	-	-	-	42,749,872
Caa3	20,810,781	-	-	-	-	20,810,781
Ca	8,126,453	-	-	-	-	8,126,453
C	423,428	-	-	-	-	423,428
Not available	23,955,215	101,395,376	159,191,018	26,253,241	-	310,794,850
Not rated	33,699,942	51,270,245	4,094,310	-	-	89,064,497
Withdrawn	6,478,250	3,329	-	-	-	6,481,579
Total bonds, corporate notes and government obligations	<u>\$2,568,292,282</u>	<u>\$1,557,088,214</u>	<u>\$2,354,023,656</u>	<u>\$71,868,583</u>	<u>\$994,125,404</u>	<u>\$7,545,398,139</u>

As of June 30, 2009, TRS held the following fixed income investments with respective quality ratings.

Quality Rating	Corporate Debt Securities	Foreign Debt Securities	U.S. Agency Obligations	Commingled Funds	Securities Lending Collateral	Total
Aaa	\$511,623,959	\$363,659,030	\$2,433,866,215	-	-	\$3,309,149,204
Aa1	27,315,513	33,377,187	1,410,747	-	-	62,103,447
Aa2	90,997,364	90,541,261	2,144,177	-	-	183,682,802
Aa3	86,447,606	7,212,552	38,024,756	-	99,952,000	231,636,914
A1	173,836,310	18,193,541	1,221,766	-	-	193,251,617
A2	297,306,368	145,657,206	4,385,534	-	141,697,178	589,046,286
A3	185,577,638	28,981,824	1,862,496	-	-	216,421,958
Baa1	265,736,167	128,435,299	6,866,014	-	-	401,037,480
Baa2	292,671,988	71,254,779	-	-	-	363,926,767
Baa3	236,976,608	4,905,906	-	-	-	241,882,514
Ba1	105,343,636	22,574,202	-	-	-	127,917,838
Ba2	44,574,784	3,360,800	-	1,712,536	-	49,648,120
Ba3	60,921,723	55,456,022	-	-	-	116,377,745
B1	23,994,077	4,707,185	-	-	-	28,701,262
B2	36,358,825	3,129,211	-	47,943,707	-	87,431,743
B3	56,337,181	10,312,418	-	-	-	66,649,599
Caa1	67,401,182	-	-	-	-	67,401,182
Caa2	53,134,171	512,230	-	-	-	53,646,401
Caa3	13,040,181	-	-	-	-	13,040,181
Ca	22,629,181	-	-	-	-	22,629,181
C	842,629	160,774	-	-	-	1,003,403
Not available	35,523,793	12,705,408	1,099,945	35,743,487	-	85,072,633
Not rated	16,154,479	17,216,502	36,961	-	-	33,407,942
Withdrawn	9,668,428	150,900	3,349,879	-	-	13,169,207
Total credit risk: debt securities	2,714,413,791	1,022,504,237	2,494,268,490	85,399,730	241,649,178	6,558,235,426
U.S. governments and agencies	22,790,421	-	34,792,048	-	-	57,582,469
Total bonds, corporate notes and government obligations	<u>\$2,737,204,212</u>	<u>\$1,022,504,237</u>	<u>\$2,529,060,538</u>	<u>\$85,399,730</u>	<u>\$241,649,178</u>	<u>\$6,615,817,895</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. TRS's fixed income investments are managed in accordance with operational guidelines that are specific as to the degree of interest rate risk that can be taken. TRS manages the interest rate risk within the portfolio using various methods, including effective duration, option adjusted duration, average maturity, and segmented time distribution, which reflects total fair value of investments maturing during a given time period.

The segmented time distribution of the various investment types of TRS debt securities at June 30, 2010 is as follows:

Type	2010 Market Value	Maturity in Years					More Than 20 Years	Other**
		Less Than 1 Year	1 to 5 Years	5 to 10 Years	10 to 20 Years			
U.S. treasuries	\$649,461,814	\$32,700,407	\$337,096,311	\$152,147,890	\$63,935,608	\$63,581,598	-	
U.S. federal agencies	253,893,175	136,971,690	35,638,903	42,894,488	20,995,626	17,392,468	-	
U.S. government index-linked bonds	287,871,078	13,662,829	72,786,779	44,715,268	138,643,299	18,062,903	-	
U.S. government- backed mortgages	955,686,526	100,509	1,343,462	97,912,352	117,062,446	739,267,757	-	
U.S. municipals (taxable)	67,915,609	-	10,315,198	3,194,494	18,859,159	35,546,758	-	
U.S. government-backed bonds	110,671,769	809,530	78,602,074	5,104,133	-	26,156,032	-	
U.S. government special situations	28,523,685	-	-	-	-	-	28,523,685	
Credits								
Bank loans	988,929	-	988,929	-	-	-	-	
Financial	694,537,178	52,494,581	238,896,161	279,297,888	10,281,676	113,566,872	-	
Industrial	945,702,864	12,871,159	179,080,424	445,904,662	46,595,520	261,251,099	-	
Utilities	89,049,210	5,422,068	18,591,299	34,258,749	4,273,310	26,503,784	-	
Asset-backed securities	337,410,443	843,081	45,028,072	63,416,868	144,913,254	83,209,168	-	
Commercial mortgage- backed securities	136,703,649	8,175,680	-	1,580,841	3,940,280	123,006,848	-	
Collateralized mortgage obligations	322,117,221	517,602	-	24,985,397	7,245,073	289,369,149	-	
Commingled/closed-end funds**	71,868,583	-	26,253,241	45,615,342	-	-	-	
Corporate convertible bonds	41,782,788	-	5,735,250	1,956,938	-	34,090,600	-	
Foreign debt obligations	1,557,088,214	60,480,451	647,986,961	357,364,003	300,867,981	190,388,818	-	
Total bonds, corporate notes and government obligations	6,551,272,735	325,049,587	1,698,343,064	1,600,349,313	877,613,232	2,021,393,854	28,523,685	
Securities lending collateral	994,125,404	268,174,381	725,951,023	-	-	-	-	
Derivatives	(3,507,417)	(4,312,180)	1,556,261	(751,498)	-	-	-	
Total bonds, corporate notes, government obligations, securities lending collateral, and derivatives	\$7,541,890,722	\$588,911,788	\$2,425,850,348	\$1,599,597,815	\$877,613,232	\$2,021,393,854	\$28,523,685	

* U.S. Government Special Situations are private funds and therefore do not have a maturity date.

** Weighted average maturity figures were used to plot the commingled funds within the schedule.

The segmented time distribution of the various investment types of TRS debt securities at June 30, 2009 is as follows:

Type	2009 Market Value	Maturity in Years				
		Less Than 1 Year	1 to 5 Years	5 to 10 Years	10 to 20 Years	More Than 20 Years
U.S. treasuries	\$300,375,693	\$31,103,330	\$110,406,350	\$53,633,665	\$54,143,308	\$51,089,040
U.S. federal agencies	334,260,961	11,530,905	162,026,730	108,014,598	35,330,246	17,358,482
U.S. government index-linked bonds	195,845,375	5,108,518	25,329,264	97,904,655	66,274,270	1,228,668
U.S. government backed mortgages	1,642,564,054	632	1,851,364	114,633,937	149,415,120	1,376,663,001
U.S. municipals (taxable)	56,014,455	-	122,823	2,634,768	22,720,365	30,536,499
Credits						
Bank loans	13,928,309	-	4,799,657	9,128,652	-	-
Financial	829,021,837	142,141,854	328,826,603	226,022,244	10,517,328	121,513,808
Industrial	766,386,520	16,594,560	161,485,951	314,377,802	29,394,362	244,533,845
Utilities	223,845,079	9,757,556	44,205,813	80,986,235	5,530,112	83,365,363
Asset-backed securities	242,291,664	-	23,655,001	37,414,399	91,603,874	89,618,390
Commercial mortgage backed securities	54,815,495	656,890	8,265,048	-	5,763,381	40,130,176
Collateralized mortgage obligations	604,540,058	-	2,820,665	28,957,082	76,813,256	495,949,055
Commingled/closed end funds*	85,399,730	-	85,399,730	-	-	-
Corporate convertible bonds	2,375,250	123,750	1,704,500	-	-	547,000
Foreign debt obligations	1,022,504,237	12,737,264	301,969,102	366,012,898	173,909,805	167,875,168
Total bonds, corporate notes, and government obligations	6,374,168,717	229,755,259	1,262,868,601	1,439,720,935	721,415,427	2,720,408,495
Securities lending collateral	241,649,178	241,649,178	-	-	-	-
Derivatives	(6,846,436)	8,812,144	(5,654,593)	(1,524,665)	362,393	(8,841,715)
Total bonds, corporate notes, government obligations, securities lending collateral and derivatives	\$6,608,971,459	\$480,216,581	\$1,257,214,008	\$1,438,196,270	\$721,777,820	\$2,711,566,780

* Weighted average maturity figures were used to plot the commingled funds within the schedule.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. TRS's currency risk exposure, or exchange rate risk, is primarily derived from its holdings in foreign currency-denominated equity, fixed income investments, and foreign currency. According to TRS's Investment Policy and investment manager agreements, international equity and global fixed income managers, at their discretion, may or may not hedge the portfolio's foreign currency exposures with currency forward contracts or options depending upon their views on a specific country or foreign currency relative to the U.S. dollar.

TRS's exposure to foreign currency risk in U.S. dollars as of June 30, 2010 is as follows:

Currency	Foreign Currency	Equities	Fixed Income	Derivatives	Total
Australian Dollar	\$530,520	\$233,980,872	\$59,135,175	\$20,369	\$293,666,936
Brazilian Real	4,248,306	91,517,002	35,812,383	1,575,903	133,153,594
British Pound Sterling	5,125,167	941,334,630	138,033,265	-	1,084,493,062
Canadian Dollar	2,010,719	115,155,532	171,777,428	-	288,943,679
Chilean Peso	2,669	749,403	-	-	752,072
Czech Koruna	-	14,124,750	-	-	14,124,750
Danish Krone	138,481	54,746,978	-	-	54,885,459
Egyptian Pound	744,176	13,096,163	18,265,490	-	32,105,829
Euro	23,863,130	1,257,802,546	161,835,796	255,452	1,443,756,924
Hong Kong Dollar	835,131	216,834,038	-	-	217,669,169
Hungarian Forint	-	23,792,178	-	-	23,792,178
Indian Rupee	-	89,914	12,253,127	-	12,343,041
Indonesian Rupiah	279,097	39,846,088	76,901,393	-	117,026,578
Israeli Shekel	62,691	5,392,286	14,755,162	-	20,210,139
Japanese Yen	13,030,927	1,057,124,623	26,618,739	-	1,096,774,289
Malaysian Ringgit	518,891	31,362,518	6,177,981	-	38,059,390
Mexican Peso	2,676,299	27,430,300	73,951,295	-	104,057,894
Moroccan Dirham	44,507	1,047,184	-	-	1,091,691
New Taiwan Dollar	1,224,357	117,043,979	-	-	118,268,336
New Zealand Dollar	1,984,295	11,425,880	17,179,583	-	30,589,758
Norwegian Krone	439,073	58,192,919	-	-	58,631,992
Philippine Peso	1,548	12,355,028	-	-	12,356,576
Polish Zloty	123	16,810,989	34,794,605	-	51,605,717
Russian Rouble	-	433,417	-	-	433,417
Singapore Dollar	227,043	70,755,904	730,929	-	71,713,876
South African Rand	-	38,986,055	-	-	38,986,055
South Korean Won	2,802,539	207,667,100	102,856,892	6,636	313,333,167
Swedish Krona	437,438	59,181,065	25,492,847	-	85,111,350
Swiss Franc	3,476,432	345,588,322	-	-	349,064,754
Thai Baht	3,747,600	68,102,695	-	-	71,850,295
Turkish Lira	3,135	93,539,588	-	-	93,542,723
Total subject to foreign currency risk	68,454,294	5,225,509,946	976,572,090	1,858,360	6,272,394,690
Investments in international securities payable in United States dollars	-	1,050,366,276	610,945,618	-	1,661,311,894
Total international investment securities (including domestic securities payable in foreign currency)	68,454,294	6,275,876,222	1,587,517,708	1,858,360	7,933,706,584
Domestic investments (excluding securities payable in foreign currency)	-	8,135,783,532	4,963,755,027	(5,365,777)	13,094,172,782
Total fair value	<u>\$68,454,294</u>	<u>\$14,411,659,754</u>	<u>\$6,551,272,735</u>	<u>(\$3,507,417)</u>	<u>\$21,027,879,366</u>

TRS's exposure to foreign currency risk in U.S. dollars as of June 30, 2009 is as follows:

Currency	Foreign Currency	Equities	Fixed Income	Derivatives	Total
Australian Dollar	\$486,482	\$217,787,876	\$41,675,825	(\$150,075)	\$259,800,108
Brazilian Real	1,467,543	142,108,085	17,161,916	461,370	161,198,914
British Pound Sterling	5,558,214	833,579,445	86,346,515	2,976,925	928,461,099
Canadian Dollar	717,503	53,267,965	45,232,332	-	99,217,800
Chinese Yuan	5,728	-	-	-	5,728
Czech Koruna	29,288	4,146,661	-	-	4,175,949
Danish Krone	57,136	45,605,193	-	-	45,662,329
Egyptian Pound	321,135	8,032,414	179,782	-	8,533,331
Euro	7,264,257	1,238,083,511	164,068,384	566,536	1,409,982,688
Hong Kong Dollar	55,577	308,024,422	-	-	308,079,999
Hungarian Forint	-	8,957,190	-	-	8,957,190
Iceland Krona	110,418	-	1,054,059	-	1,164,477
Indonesian Rupiah	810,005	24,588,300	44,843,687	-	70,241,992
Israeli Shekel	16,528	3,140,892	-	-	3,157,420
Japanese Yen	2,431,194	969,169,984	26,643,290	-	998,244,468
Malaysian Ringgit	189,292	22,397,058	9,480,744	-	32,067,094
Mexican Peso	2,654,100	18,574,798	72,559,716	-	93,788,614
Moroccan Dirham	79,211	1,907,805	-	-	1,987,016
New Taiwan Dollar	2,772,528	123,840,246	-	-	126,612,774
New Zealand Dollar	1,115,056	12,990,950	47,090,926	-	61,196,932
Norwegian Krone	235,133	39,774,315	-	-	40,009,448
Philippine Peso	8,749	9,536,929	-	-	9,545,678
Polish Zloty	160,236	16,434,462	28,209,288	-	44,803,986
Singapore Dollar	(176,812)	74,006,997	645,705	-	74,475,890
South African Rand	1,007,407	40,923,436	-	-	41,930,843
South Korean Won	7,018,661	153,754,431	68,145,400	(37,551)	228,880,941
Swedish Krona	498,925	39,772,945	11,466,929	-	51,738,799
Swiss Franc	225,176	237,892,169	-	-	238,117,345
Thai Baht	678,859	47,421,199	-	-	48,100,058
Turkish Lira	2	60,310,039	-	-	60,310,041
United Arab Emirates Dirham	(347)	-	-	-	(347)
Total subject to foreign currency risk	35,797,184	4,756,029,717	664,804,498	3,817,205	5,460,448,604
Investments in international securities payable in United States dollars	-	719,884,153	380,431,412	-	1,100,315,565
Total international investment securities (including domestic securities payable in foreign currency)	35,797,184	5,475,913,870	1,045,235,910	3,817,205	6,560,764,169
Domestic investments (excluding securities payable in foreign currency)	-	8,043,555,932	5,328,932,807	(10,663,641)	13,361,825,098
Total Fair Value	\$35,797,184	\$13,519,469,802	\$6,374,168,717	(\$6,846,436)	\$19,922,589,267

In addition to the above, TRS's foreign currency investments in real estate and private equity were \$188,866,139 at June 30, 2010 and \$181,938,455 at June 30, 2009.

3. Securities Lending Program

The Board of Trustees' policies permit TRS to use investments to enter into securities lending transactions, which are loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. TRS's master trustee is the primary lending agent for the plan's domestic securities for collateral of 102 percent of the market value of U.S.

securities and non-U.S. fixed income securities and 105 percent of the market value of non-U.S. equity securities, which may be reduced to 102 percent for matched currencies.

At year end, TRS has no credit risk exposure to borrowers because the amount TRS owes the borrowers exceeds the amount the borrowers owe TRS. Under certain circumstances, the contract with TRS's lending agent requires the agent to indemnify TRS if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay TRS for income distributions by the securities issuers while the securities are on loan. All securities loans can be terminated on demand either by TRS or the borrower, although the average term of the loans is 15 days. A portion of the cash collateral received is invested in one of the lending agent's short-term investment vehicles, which at year end has a weighted average maturity of 23 days. There were no significant violations of legal or contractual provisions, and there were no borrower or lending agent default losses known to the securities lending agent.

As of June 30, 2010 and June 30, 2009, TRS had outstanding loaned investment securities with a market value of \$3,473,627,126 and \$4,120,984,083, respectively, against which it had received collateral with a market value of \$3,568,594,875 and \$4,259,993,713, respectively. Securities lending collateral reflected on the Statements of Plan Net Assets reflects the securities purchased with cash collateral.

4. Derivatives

TRS, through its investment managers, invests in derivative securities as a fundamental part of the overall investment process. All TRS derivatives are considered investments and the fair value is reported in the Statements of Plan Net Assets. TRS does not directly invest in derivatives but utilizes these instruments within the investment portfolio for a variety of purposes. TRS may hold derivatives to hedge investment transactions accounted for at fair value. The term "hedge" in this context denotes the broad economic activity of entering into contracts intended to offset risks associated with certain transactions, such as the changes in interest rates on investments in debt securities, commodities or instruments denominated in a foreign currency. Assets and liabilities that are measured at fair value, such as investments, do not qualify as hedgeable items and do not meet the requirements for hedge accounting.

A derivative security is an investment whose return depends upon the value of another financial instrument or security such as stocks, bonds, commodities, or a market index. The derivative investments in TRS's portfolio are used primarily to enhance performance and reduce volatility. TRS's investments in derivatives are not leveraged. In the case of an obligation to purchase (long a financial future or call option), the full value of the obligation is primarily held in cash or cash equivalents. For obligations to sell (short a financial future or put options), the reference security is held in the portfolio.

To varying degrees, derivative transactions involve credit risk, sometimes known as default or counterparty risk, and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to the established contract terms. To eliminate credit risk, derivative securities can be acquired through a clearinghouse that guarantees delivery and accepts the risk of default by either party.

Market risk is the possibility that a change in interest, currency, or other pertinent market rates will cause the value of a financial instrument to decrease or become more costly to settle. Imposing limits on the types, amounts, and degree of risk that investment managers may undertake regulates the market risk associated with the constantly fluctuating prices of derivatives. These limits are approved by the Board of

Trustees and senior management, and the derivative positions of the investment managers are reviewed on a regular basis to monitor compliance.

At June 30, 2010, derivative investments included currency forward contracts, rights, warrants, futures, options, swaps, and swaptions. Within the financial statements, currency forward contracts are reflected as investment payables/receivables, rights and warrants are reflected as equities, and all futures, options, swaps and swaptions are classified as derivatives. The change in fair value of derivative investments is included in investment income on the Statements of Changes in Plan Net Assets.

The following table summarizes the derivatives held within the TRS investment portfolio at June 30, 2010, and the change in fair value of derivative investments during the fiscal year. The contractual principal amounts shown represent TRS's financial exposure to these instruments in U.S. dollars. Comparative data for June 30, 2009 is not available due to the change in custodians that occurred last fiscal year.

The following table summarizes the derivatives held within the TRS investment portfolio at June 30, 2010, and the change in fair value, realized and unrealized, during the fiscal year.

Investment Derivatives	Fair Value at June 30, 2010	Change in Fair Value	Shares/Par	Notional
Rights	\$862,895	\$1,995,876	6,120,046	\$6,120,046
Warrants	17,054,863	14,466,580	2,679,239	2,679,239
Currency forwards	15,985,601	13,793,617	-	-
U.S. stock index futures				
– long	0	94,251,519	431,250	442,721,250
U.S. stock index futures				
– short	0	(38,625)	-	-
Fixed income futures – long	0	44,787,811	745,200,000	824,133,108
Fixed income futures – short	0	(4,683,755)	(134,750,000)	(164,319,877)
Commodity futures – short	0	(980)	-	-
U.S. equity put index options				
purchased	972,000	311,741	54,000	581,508
U.S. equity put index options				
written	(2,051,550)	(339,669)	(42,300)	1,716,534
Currency forward put				
options purchased	1,386,186	(268,700)	46,020,000	8,478,138
Currency forward put				
options written	(1,279,068)	65,288	(31,820,000)	6,610,384
Inflation put options written	(392,868)	(87,388)	(35,100,000)	35,100,000
Options on futures bought	489,244	(3,926,582)	279,827,000	284,031,892
Options on futures written	(87,375)	2,798,004	(73,964,500)	22,374,800
Swaptions bought	340,196	(8,677,262)	36,390,000	36,390,000
Swaptions written	(4,113,619)	8,640,073	(465,500,000)	12,482,754
Credit default swaps buying				
protection	(57,332)	(901,506)	49,560,000	49,574,322
Credit default swaps selling				
protection	(1,791,827)	7,947,954	221,335,911	219,805,767
Pay fixed interest rate				
swaps	114,032	(7,186,725)	3,200,000	1,889,344
Receive fixed interest rate				
swaps	2,773,830	19,330,480	7,977,300,000	196,236,562
Receive fixed inflation swaps	190,734	(25,748)	5,100,000	6,437,724
Grand totals	\$30,395,942	\$182,252,003		\$1,993,043,495

Currency Forward Contracts

Objective: Currency forward contracts are agreements to exchange one currency for another at an agreed-upon price and settlement date. TRS's investment managers use these contracts primarily to hedge the currency exposure of its investments.

Terms: Currency forward contracts are two-sided contracts in the form of either forward purchases or forward sales. Forward purchases obligate TRS to purchase specific currency at an agreed upon price. Forward sales obligate TRS to sell specific currency at an agreed upon price. At June 30, 2010, TRS had currency forward purchase or sale contracts for 24 different currencies. These contracts have various settlement dates within 12 months of June 30, 2010.

Fair Value: As of June 30, 2010 and June 30, 2009, TRS's open currency forward contracts had a net fair value of \$15,985,601 and (\$5,359,472), respectively. The following table represents the unrealized gain/(loss) on the contracts at June 30.

	As of June 30, 2010	As of June 30, 2009
Forward currency purchases	\$1,562,895,942	\$1,121,894,107
Forward currency sales	(1,546,910,341)	(1,127,253,579)
Unrealized gain/(loss)	<u>\$ 15,985,601</u>	<u>(\$5,359,472)</u>

Financial Futures

Objective: Financial futures are agreements to purchase or sell a specific amount of an asset at a specified delivery or maturity date for an agreed upon price. These derivative securities are used to improve yield, adjust the duration of the fixed income portfolio, circumvent changes in interest rates, or to replicate an index.

Terms: Futures contracts are standardized and traded on organized exchanges, thereby minimizing TRS's credit risk. As the daily market value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to, or received from, the clearinghouse. At June 30, 2010 and June 30, 2009, TRS had outstanding futures contracts with a notional value, or exposure, of \$1,102,534,481 and \$1,823,819,047, respectively. Contractual principal values do not represent the actual values in the Statements of Plan Net Assets. The contracts have various expiration dates through December 2011.

Fair Value: Gains and losses on futures contracts are settled daily based on the change of the index or commodity price for the underlying notional value. Because of daily settlement, the futures contracts have no fair value. During the fiscal year ended June 30, 2010, the realized gain on futures contracts was \$151,189,581.

Type	FY10		FY09	
	Number of Contracts	Contractual Principal	Number of Contracts	Contractual Principal
Equity Futures				
U.S. stock index futures – long	7,973	\$442,721,250	7,927	\$575,437,525
Fixed Income/Cash Equivalent Futures				
Fixed income index futures – long	2,227	297,157,704	1,713	253,979,373
Fixed income index futures – short	(675)	(80,743,149)	(320)	(37,282,692)
International fixed income index futures – long	572	84,533,808	238	20,111,589
International fixed income index futures – short	(450)	(60,373,484)	(212)	(32,954,234)
Cash equivalent (Eurodollar) futures – long	1,715	425,707,575	3,840	949,191,881
Cash equivalent (Eurodollar) futures – short	(80)	(19,869,000)	0	0
Cash equivalent foreign yield curve – long	84	16,734,021	548	108,536,958
Cash equivalent foreign yield curve – short	(18)	(3,334,244)	(448)	(13,201,353)
Total Fixed Income/Cash Equivalent Futures	3,375	659,813,231	5,359	1,248,381,522
Total Futures (Net)	11,348	\$1,102,534,481	13,286	\$1,823,819,047

Financial Options

Objective: Financial options are agreements that give one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price, called the strike price, on or before a specified expiration date. The owner (buyer) of an option has all the rights, while the seller (writer) of an option has the obligations of the agreement. As a writer of financial options, TRS receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. Premiums received are recorded as a liability when the financial option is written. The Options Clearing Corporation (OCC) performs much the same sort of function for options markets as the clearinghouse does for futures markets.

Terms: At June 30, 2010, the TRS investment portfolio held U.S. equity put options with notional value of \$2,298,042, currency forward put options with notional value of \$15,088,522, inflation put options with notional value of \$35,100,000, and options on futures with underlying notional value of \$306,406,692. At June 30, 2009, the TRS portfolio held options on futures with underlying notional value of \$84,541,396. Contractual principal/notional values do not represent the actual values in the Statements of Plan Net Assets. The contracts have various expiration dates through May 2015.

Fair Value: Fluctuations in the fair value of financial options are recognized in TRS's financial statements as incurred rather than at the time the options are exercised or at expiration. As of June 30, 2010 and June 30, 2009, the fair value of all option contracts, gross of premiums received, was (\$963,431) and \$16,675, respectively. The fair value represents the amount needed to close all positions as of that date. The following table presents the aggregate contractual principal (notional value) of outstanding contracts at June 30, 2010 and June 30, 2009. Contractual principal amounts are often used to express the volume of these transactions but do not reflect the extent to which positions may offset one another. Options on futures represent the corresponding futures exposure.

	FY10		FY09	
	Number of Contracts	Contractual Principal	Number of Contracts	Contractual Principal
Equity index put options – purchased	540	\$581,508	0	\$0
Equity index put options – written	(423)	1,716,534	0	0
Currency forward put options – written	2	6,610,384	0	0
Currency forward put options – purchased	4	8,478,138	0	0
Inflation put options – written	10	35,100,000	0	0
Fixed income call options on futures USD	155	2,653,280	109	30,509,219
Fixed income put options on futures USD	19	146,336,425	100	2,549,678
Fixed income call options on futures (non-dollar)	449	1,358,451	256	64,827,270
Fixed income put options on futures (non-dollar)	0	0	362	(57,776,333)
Cash equivalent call options on futures – USD	0	0	186	9,917,664
Cash equivalent put options on futures – USD	0	0	(419)	42,812,417
Cash equivalent call options on futures (Non-dollar) – purchased	191	0	603	14,153,206
Cash equivalent put options on futures (non-dollar)	1,096	156,058,536	537	(22,451,725)

Swaptions

Objective: Swaptions are options on swaps that give the purchaser the right, but not the obligation, to enter into a swap at a specific date in the future. An interest-rate swaption gives the buyer the right to pay or receive a specified fixed rate in a swap in exchange for a floating rate for a stated time period. TRS has both written and purchased interest rate swaptions in its portfolio. In a written call swaption, the seller (writer) has the obligation to pay a fixed rate in exchange for a floating rate for a stated period of time and in a written put swaption, the seller has the obligation to receive a fixed rate in exchange for a floating rate if the swaption is exercised. A purchased (long) call swaption gives the buyer the right to receive a fixed rate in exchange for a floating rate for a stated period of time while a purchased (long) put swaption gives the buyer the right to pay a fixed rate in exchange for a floating rate if the swaption is exercised.

The TRS investment portfolio also holds credit default swaptions. A credit default swaption gives the holder the right, but not the obligation to buy (call) or sell (put) protection on a specified entity or index for a specified future time period.

As the writer of a swaption, TRS receives a premium at the outset of the agreement. Premiums are recorded as a liability when the swaption is written.

Terms: At June 30, 2010, TRS had outstanding written call swaption exposure of \$10,012,297, written put swaption exposure of \$2,470,457, and purchased put swaption exposure of \$36,390,000. The contracts have various maturity dates through April 2015. At June 30, 2009, TRS had outstanding purchased call swaption exposure of \$5,603,794, and written put swaption exposure of \$1,096,417. Exposure amounts for swaptions do not represent the actual values in the Statement of Plan Assets.

Fair Value: Fluctuations in the fair value of swaptions are recognized in TRS's financial statements as incurred rather than at the time the swaptions are exercised or when they expire. As of June 30, 2010, and June 30, 2009, the fair value of swaption contracts was (\$3,773,423) and \$8,481,947, respectively.

Credit Default Swaps/Index Swaps

Objective: Credit default swaps are financial instruments used to replicate the effect of investing in debt obligations of corporate bond issuers as a means to manage bond exposure, effectively buying or selling insurance protection in case of default. Credit default swaps may be specific to an individual security or to a specific market sector (index swaps). The risk of the credit default/index swap is comparable to the credit risk of the underlying debt obligations of issuers that comprise the credit default/index swap, with the primary risk being counterparty risk. The owner/buyer of protection (long the swap) pays an agreed upon premium to the seller of protection (short the swap) for the right to sell the debt at a previously agreed upon value in the event of a default by the bond issuer. The premium is paid periodically over the term of the swap or until a credit event of the bond issuer occurs. In the event of a default, the swap is called, and the seller of protection makes a payment to the buyer, which is usually based on a fixed percentage of total par.

Purchased credit default swaps decrease credit exposure (buying protection), providing the right to sell debt to the counterparty in the event of a default. A buyer of credit protection against a basket of securities pays an upfront or periodic payment until either maturity or default. In the event of a default, the buyer receives a lump-sum payment. If no default occurs, the buyer loses only the premium paid.

Written credit default swaps increase credit exposure (selling protection), obligating the portfolio to buy debt from counterparties in the event of a default. A seller of credit protection against a basket of securities receives an upfront or periodic payment to compensate against potential default events. If a default event occurs, the seller must pay the buyer the full notional value of the obligation in exchange for the obligation. If no default occurs, the seller will have earned the premium paid.

Terms: At June 30, 2010, TRS had credit default/index swaps in its portfolio with various maturity dates through 2020. The total notional value of written credit default swaps (selling protection) was \$219,805,767 and \$439,414,604 at June 30, 2010 and 2009, respectively. The total notional value of purchased credit default swaps (buying protection) was \$49,574,322 at June 30, 2010.

Fair Value: The fair value of credit default swaps, including index swaps, held by TRS was (\$1,849,159) at June 30, 2010 and (\$20,473,467) at June 30, 2009. This represents the payments due from TRS to counterparties under the terms of the agreements.

Interest Rate Swaps

Objective: Interest rate swaps are agreements between parties to exchange a set of cash flow streams over a period of time. In the most common type of interest rate swap arrangement, one party agrees to pay fixed interest payments on designated dates to a counterparty who, in turn, agrees to make return interest payments that float with some reference rate. Long-swap positions (receive fixed) increase exposure to long-term interest rates; short positions (pay fixed) decrease interest rate/risk exposure.

Terms: At June 30, 2010 and June 30, 2009, TRS held interest rate swaps in various currencies with various expiration/maturity dates ranging from 2010 to 2015. Swap agreements typically are settled on a net basis, with a party receiving or paying only the net amount of the fixed/floating payments. Payments may be made at the conclusion of a swap agreement or periodically during its term.

Fair Value: The table below presents the fair value of TRS's interest rate swap exposure at June 30, 2010 and June 30, 2009.

	June 30, 2010 Receivable	June 30, 2009 Receivable
Receive floating/pay fixed	\$114,032	\$836,547
Receive fixed/pay floating	2,773,830	3,994,804

Inflation-linked Swaps

Objective: Inflation-linked swaps are agreements where a fixed payment is exchanged for a variable payment linked to an inflation index. These swaps can protect against unfavorable changes in inflation expectations and are used to transfer inflation risk from one counterparty to another.

Terms: At June 30, 2010, TRS was a party to inflation-linked swaps denominated in Euros with a maturity date of October 15, 2010 and total par of 5.1 million. At June 30, 2009, TRS was a party to inflation-linked swaps denominated in Euros with maturity dates ranging from 2010 to 2012 and total par of 7.4 million. TRS receives a fixed rate for all current positions, reducing inflation risks in certain countries. Inflation-linked swaps initially have no net value; the value of the swap's outstanding payments will change as interest and inflation rates change. The value may be either positive or negative.

Fair value: The fair value of the inflation-linked swaps held by TRS was \$190,734 at June 30, 2010 and \$297,058 at June 30, 2009.

Derivative Interest Rate Risk

Interest rate risk for derivative securities is disclosed in Note D. 2. Both interest rate and inflation rate swaps have fair values that are sensitive to interest rate changes. TRS had the following interest rate and inflation swaps at June 30, 2010.

Interest Rate and Inflation Swaps

Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/2010
Pay Fixed Interest Rate Swaps						
Interest rate swap BRL	3,200,000	\$1,889,344	3 mo. Brazilian CDI ¹	12.54%	1/2/2012	\$114,032
Total Pay Fixed Interest Rate Swaps		1,889,344				114,032
Receive Fixed Interest Rate Swaps						
Interest rate swap KRW	3,899,000,000	3,205,159	2.82%	3 mo. KWDC ²	1/28/2011	3,246
Interest rate swap KRW	3,789,000,000	3,114,788	2.83	3 mo. KWDC	1/28/2011	3,389
Interest rate swap AUD	3,600,000	3,103,048	6.00	6 mo. BB Australian ³	9/15/2012	62,308
Interest rate swap AUD	2,500,000	2,108,407	4.50	3 mo. BB Australian	6/15/2011	(7,384)
Interest rate swap AUD	11,700,000	9,867,343	4.50	3 mo. BB Australian	6/15/2011	(34,556)
Interest rate swap USD	16,500,000	16,739,615	2.00	3 mo. LIBOR ⁴	12/15/2012	239,615
Interest rate swap USD	4,700,000	4,845,941	3.00	3 mo. LIBOR	12/15/2015	145,941
Interest rate swap USD	2,600,000	2,680,733	3.00	3 mo. LIBOR	12/15/2015	80,733
Interest rate swap USD	500,000	515,526	3.00	3 mo. LIBOR	12/15/2015	15,526
Interest rate swap USD	600,000	618,631	3.00	3 mo. LIBOR	12/15/2015	18,631
Interest rate swap USD	900,000	927,946	3.00	3 mo. LIBOR	12/15/2015	27,946

Continued

1. CDI - Cetip Interbank Deposit (interbank lending rate)

2. KWDC - Korean Won Certificate of Deposit

3. BB - Bank Bill Swap Reference Rate (Australian financial market)

4. LIBOR - London Interbank Offered Rate

Continued

Asset Description	Par	Gross Notional	TRS Receives	TRS Pays	Maturity Date	Fair Value 6/30/10
Interest rate swap USD	800,000	\$824,841	3.00%	3 mo. LIBOR	12/15/2015	\$24,841
Interest rate swap USD	13,500,000	13,696,048	2.00	3 mo. LIBOR	12/15/2012	196,048
Interest rate swap USD	3,400,000	3,505,574	3.00	3 mo. LIBOR	12/15/2015	105,574
Interest rate swap USD	3,600,000	3,933,693	4.00	3 mo. LIBOR	12/16/2014	327,693
Interest rate swap USD	800,000	875,810	4.00	3 mo. LIBOR	6/16/2015	74,477
Interest rate swap USD	300,000	328,095	4.00	3 mo. LIBOR	6/16/2015	27,929
Interest rate swap BRL	1,500,000	800,090	10.58	3 mo. Brazilian CDI	1/2/2012	(32,088)
Interest rate swap BRL	5,700,000	3,229,738	12.70	3 mo. Brazilian CDI	1/2/2014	67,464
Interest rate swap BRL	4,100,000	2,420,722	12.54	3 mo. Brazilian CDI	1/2/2012	146,104
Interest rate swap BRL	1,800,000	1,062,756	12.54	3 mo. Brazilian CDI	1/2/2012	64,143
Interest rate swap BRL	1,500,000	831,482	11.63	3 mo. Brazilian CDI	1/2/2012	(695)
Interest rate swap BRL	100,000	63,290	14.77	3 mo. Brazilian CDI	1/2/2012	7,812
Interest rate swap BRL	7,400,000	4,186,267	12.83	3 mo. Brazilian CDI	1/2/2013	80,859
Interest rate swap BRL	1,300,000	723,707	10.84	3 mo. Brazilian CDI	1/2/2012	2,486
Interest rate swap BRL	1,200,000	668,037	10.84	3 mo. Brazilian CDI	1/2/2012	2,295
Interest rate swap BRL	800,000	497,447	14.77	3 mo. Brazilian CDI	1/2/2012	53,619
Interest rate swap BRL	2,100,000	1,179,083	12.17	3 mo. Brazilian CDI	1/2/2013	14,034
Interest rate swap BRL	11,700,000	6,570,940	12.18	3 mo. Brazilian CDI	1/2/2013	79,955
Interest rate swap BRL	1,400,000	795,906	11.60	3 mo. Brazilian CDI	1/2/2012	19,207
Interest rate swap BRL	300,000	170,893	11.67	3 mo. Brazilian CDI	1/2/2012	4,457
Interest rate swap BRL	8,000,000	4,391,414	11.14	3 mo. Brazilian CDI	1/2/2012	(46,866)
Interest rate swap BRL	9,400,000	5,275,226	11.14	3 mo. Brazilian CDI	1/2/2012	60,247
Interest rate swap BRL	1,700,000	945,837	10.99	3 mo. Brazilian CDI	1/2/2012	2,703
Interest rate swap BRL	2,100,000	1,168,387	10.99	3 mo. Brazilian CDI	1/2/2012	3,338
Interest rate swap BRL	84,200,000	47,044,837	11.36	3 mo. Brazilian CDI	1/2/2012	331,940
Interest rate swap BRL	6,900,000	3,930,533	11.67	3 mo. Brazilian CDI	1/2/2012	102,517
Interest rate swap BRL	1,800,000	1,028,968	12.65	3 mo. Brazilian CDI	1/2/2014	30,355
Interest rate swap BRL	9,200,000	5,231,818	12.51	3 mo. Brazilian CDI	1/2/2014	127,796
Interest rate swap BRL	5,600,000	3,188,038	12.54	3 mo. Brazilian CDI	1/2/2014	81,242
Interest rate swap BRL	3,200,000	1,802,759	12.29	3 mo. Brazilian CDI	1/2/2013	27,447
Interest rate swap BRL	1,500,000	836,956	11.98	3 mo. Brazilian CDI	1/2/2013	4,778
Interest rate swap BRL	500,000	277,113	11.42	3 mo. Brazilian CDI	1/2/2012	(280)
Interest rate swap BRL	900,000	498,492	11.39	3 mo. Brazilian CDI	1/2/2012	(815)
Interest rate swap BRL	1,500,000	834,435	11.88	3 mo. Brazilian CDI	1/2/2013	2,258
Interest rate swap BRL	200,000	111,848	12.11	3 mo. Brazilian CDI	1/2/2014	891
Interest rate swap BRL	400,000	224,881	12.59	3 mo. Brazilian CDI	1/2/2013	2,967
Interest rate swap BRL	7,800,000	4,343,402	11.89	3 mo. Brazilian CDI	1/2/2013	16,079
Interest rate swap BRL	6,800,000	3,786,555	11.89	3 mo. Brazilian CDI	1/2/2013	14,017
Interest rate swap BRL	200,000	112,576	12.25	3 mo. Brazilian CDI	1/2/2014	1,619
Interest rate swap BRL	1,600,000	895,586	12.07	3 mo. Brazilian CDI	1/2/2013	7,930
Interest rate swap BRL	12,500,000	6,950,487	11.90	3 mo. Brazilian CDI	1/2/2013	15,675
Interest rate swap BRL	1,000,000	560,668	12.48	3 mo. Brazilian CDI	1/2/2013	5,882
Interest rate swap BRL	400,000	224,594	12.20	3 mo. Brazilian CDI	1/2/2014	2,680
Interest rate swap BRL	15,000,000	8,479,596	12.80	3 mo. Brazilian CDI	1/2/2013	157,821
Total Receive Fixed Interest Rate Swaps		196,236,562				2,773,830
Receive Fixed Inflation-linked Swaps						
Inflation swap EUR	1,300,000	1,641,477	2.10	France CPI Ex-Tobacco	10/15/2010	49,107
Inflation swap EUR	3,800,000	4,796,247	2.09	France CPI Ex-Tobacco	10/15/2010	141,627
Total Receive Fixed Inflation-linked Swaps		\$6,437,724				\$190,734

Derivative Credit Risk

Exchange traded derivatives are evaluated within the investment risk disclosure. Non-exchange traded derivative instruments may expose TRS to credit/counterparty risk. To minimize TRS's exposure to potential loss related to credit risk, TRS's policy requires all counterparties utilized by its external investment managers to have a minimum credit rating of A3/A- (Moody's/S&P) and above average market capitalizations.

The terms of non-exchange traded derivatives transactions are specified in standardized counterparty agreements such as International Swaps and Derivatives Association (ISDA) agreements for swaps, master agreements for non-exchange traded options, and forward agreements for forward settlement transactions. TRS utilizes its investment managers' composite ISDA agreements, which cover multiple clients, to participate in specific market transactions. Because the counterparty risk of a security will fluctuate with market movements, all TRS managers using non-exchange traded derivatives operate a collateral call process ensuring full collateralization of these derivatives. TRS does not have a policy regarding master netting arrangements.

The aggregate fair value of non-exchange traded derivative instruments in asset positions at June 30, 2010, was \$59,624,201. This represents the maximum loss that would be recognized at the reporting date if all counterparties failed to perform as contracted.

Counterparty Ratings for Non-Exchange Traded Derivatives

Moody's Quality Rating	Market Values at 6/30/10
Aaa	\$210,866
Aa1	6,581,149
Aa2	4,223,437
Aa3	40,676,499
A1	6,477,194
A2	1,448,420
NA	6,636
Total subject to credit risk	<u>\$59,624,201</u>

Although the derivative instruments held within the TRS investment portfolio are executed with various counterparties, approximately 61 percent of the net market value exposure to credit risk is for non-exchanged traded derivative contracts held with three counterparties which are rated Aa3.

E. Reserves

TRS maintains statutory reserve accounts in accordance with the provisions of 40 ILCS 5/16-101 *et seq.* In 1997, the Illinois General Assembly passed legislation that allowed the crediting of income at fair value, as opposed to book value, to the Benefit Trust Reserve.

1. Benefit Trust

	2010	2009
Balances at June 30	\$31,318,081,070	\$28,492,427,203

This reserve serves as a clearing account for TRS income and expenses. The reserve is credited with contributions from the State of Illinois that are not specifically allocated to the Minimum Retirement Annuity Reserve, member and employer contributions, income from TRS invested assets, and contributions from annuitants who qualify for automatic annual increases in annuity.

The reserve accumulates, with 6 percent interest, the contributions by members prior to retirement. Contributions have been 7.5 percent of salary since July 1, 1998. Contributions are fully refundable upon withdrawal from TRS, excluding interest credited thereon. The interest accrued is refundable only in the event of death. Interest is credited as of the date of retirement or death of those retiring or dying during the year and as of the end of the fiscal year for all other members. Interest is computed annually based upon the individual member's balance in the reserve at the beginning of the fiscal year.

This reserve is charged for transfers to the Minimum Retirement Annuity Reserve and all

- refunds to withdrawing members,
- retirement annuity payments (except as provided by the Minimum Retirement Annuity Reserve),
- benefits that are paid to disabled members,
- death benefits paid, and
- refunds to annuitants for survivor benefit contributions.

The expected benefit payments do not equal the present value of the reserve. The additional amount needed (the unfunded actuarial accrued liability) as calculated by the actuary was \$39,854,106,000 in 2010 and \$35,001,154,000 in 2009.

2. Minimum Retirement Annuity

	2010	2009
Balances at June 30	\$5,703,144	\$5,302,240

The minimum annuity is set by law at \$25 per month for each year of creditable service to a maximum of \$750 per month after 30 or more years of creditable service. To qualify, annuitants are required to make a one-time contribution that is credited to the reserve. Interest at 6 percent is credited to the reserve annually based upon the average reserve balance. For FY09, the State of Illinois also appropriated funds necessary to pay the minimum benefits provided in the legislation. For FY10, the necessary amount to pay benefits was received from general obligation bonds issued by the state. All benefits paid under this program are charged to the reserve. This reserve is fully funded.

F. Pension and Other Post-employment Benefits for TRS Employees

TRS employees are covered by either the State Employees' Retirement System of Illinois or the Teachers' Retirement System of the State of Illinois. Also, most employees are eligible for other types of post-employment benefits.

State Employees' Retirement System (SERS)

1. Plan Description for SERS

TRS employees who do not participate in TRS are covered by the State Employees' Retirement System (SERS), a pension trust fund in the State of Illinois reporting entity. SERS is a single-employer defined benefit public employee retirement system. SERS provides retirement, disability, and death benefits to plan members and beneficiaries. Automatic annual post-retirement increases are provided. SERS is governed by Article 14 of the Illinois pension code, 5 ILCS 40/14-101 and following as well as the Illinois Administrative Code, Title 80, Subtitle D, Chapter I. SERS issues a publicly available financial report that includes financial statements and required supplemental information. It may be obtained at www.state.il.us/srs or by writing to SERS at 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255. SERS's financial position and results of operations are also included in the *State of Illinois Comprehensive Annual Financial Report*. This report may be obtained at www.ioc.state.il.us, or by writing to the office of the Comptroller, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois, 62704-1858.

2. Funding Policy for SERS

The contribution requirements of SERS members and the state are established by state statute and may be amended by action of the General Assembly and the Governor. TRS employees covered by SERS

contribute 4.0 percent of their annual covered salaries. The state contribution rate for the years ended June 30, 2010, 2009 and 2008 were actuarially determined according to a statutory schedule.

TRS contribution rates to SERS for its SERS-covered employees for the years ended June 30, 2010, 2009, and 2008 were 28.377 percent, 21.049 percent, and 16.561 percent, respectively. TRS contributions for the years ended June 30, 2010, 2009, and 2008, were \$1,648,041, \$1,168,335, and \$910,478, respectively.

Teachers' Retirement System (TRS)

1. Plan Description for TRS

A summary description of the TRS plan can be found within these notes to the financial statements at "A. Plan Description."

2. Funding Policy for TRS

TRS employees who participate in TRS are required to contribute 9.4 percent of their annual covered salaries. For employees who were members of TRS on August 17, 2007 and for employees hired on or after that date, TRS contributes 0.58 percent of the employees' annual covered salaries. Additional employer contributions for these employees are paid by the state of Illinois and are included in the annual state contribution to TRS. TRS's contributions for participating employees for the years ended June 30 in 2010, 2009, and 2008 were \$19,296, \$19,903, and \$24,719, respectively. These amounts represent 100 percent of the required contributions.

Other Post-employment Benefits for TRS Employees

The state provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all state employees become eligible for post-employment benefits if they eventually become annuitants of one of the state-sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the state's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the state, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Employees of the system who retired before January 1, 1998 who are vested in either the State Employees' Retirement System or the Teachers' Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced 5 percent for each year of credited service with the state allowing those annuitants with 20 or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

The state pays the TRS portion of employer costs for the benefits provided. The total cost of the state's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the state in the *Illinois Comprehensive Annual Financial Report*. The state finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are estab-

lished are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

Required Supplementary Information

Schedule of Funding Progress¹

Actuarial Valuation Date	Actuarial Value of Assets* (a)	Accrued Liability (AAL-Projected Unit Credit) (b)	Funded Ratio (a)/(b)	Unfunded Actuarial Accrued Liability (UAAL) (b) - (a)	Covered Payroll (c)	Unfunded Actuarial Accrued Liability as a percentage of Covered Payroll (b-a)/(c)
6/30/01	\$23,315,646,000	\$39,166,697,000	59.5%	\$15,851,051,000	\$6,430,612,000	246.5%
6/30/02	22,366,285,000	43,047,674,000	52.0	20,681,389,000	6,785,236,000	304.8
6/30/03	23,124,823,000	46,933,432,000	49.3	23,808,609,000	7,059,032,000	337.3
6/30/04	31,544,729,000	50,947,451,000	61.9	19,402,722,000	7,280,795,000	266.5
6/30/05	34,085,218,000	56,075,029,000	60.8	21,989,811,000	7,550,510,000	291.2
6/30/06	36,584,889,000	58,996,913,000	62.0	22,412,024,000	7,765,752,000	288.6
6/30/07	41,909,318,000	65,648,395,000	63.8	23,739,077,000	8,149,849,000	291.3
6/30/08	38,430,723,000	68,632,367,000	56.0	30,201,644,000	8,521,717,000	354.4
6/30/09	38,026,044,000	73,027,198,000	52.1	35,001,154,000	8,945,021,000	391.3
6/30/10	37,439,092,000	77,293,198,000	48.4	39,854,106,000	9,251,139,000	430.8

* Market value through FY08. Five-year prospective smoothing began in FY09.

Schedule of Contributions from Employers and Other Contributing Entities¹

Year Ended June 30	State Contributions ²	Federal and Employer Contributions ²	Total	Annual Required Contribution per GASB Statement #25	Percentage Contributed	Annual Required Contribution per State Statute	Percentage Contributed
2001	\$719,357,000	\$58,985,000	\$778,342,000	\$1,102,441,000	70.6%	\$775,732,000	100.3%
2002	810,619,000	51,270,000	861,889,000	1,163,262,000	74.1	872,283,000	98.8
2003	926,066,000	44,779,000	970,845,000	1,427,519,000	68.0	963,858,000	100.7
2004	1,028,259,000	75,078,000	1,103,337,000	1,716,977,000	64.3	1,100,264,000	100.3
2005	903,928,000	83,434,000	987,362,000	1,683,212,000	58.7	986,269,000	100.1
2006	531,828,000	69,645,000	601,473,000	1,679,524,000	35.8	601,555,000	100.0
2007	735,515,000	81,155,000	816,670,000	2,052,396,000	39.8	822,890,000	99.2
2008	1,039,195,000	130,578,000	1,169,773,000	1,949,463,000	60.0	1,135,127,000	103.1
2009	1,449,889,000	151,716,000	1,601,605,000	2,109,480,000	75.9	1,556,737,000	102.9
2010	2,079,129,000	170,653,000	2,249,782,000	2,481,914,000	90.6	2,217,053,000	101.5

¹ For consistency with figures reported by TRS's actuaries, the amounts have been rounded to the nearest thousand. Actual contributions varied slightly from contributions that are required by statute mainly because of differences between estimated and actual federal contributions. Beginning in FY08, lump-sum payments for ERO are included as employer contributions, further increasing the difference.

Pension obligation bonds are not treated as a state contribution in FY04 because they do not count towards the annual funding requirement calculated by the actuary. In FY03, the annual contribution required per state statute is the state funding requirement certified after Public Act 92-0505 was enacted. The diversion to THIS Fund was effective for the entire fiscal year. In FY02, the annual contribution required per state statute is the state funding requirement certified before Public Act 92-0505 was enacted. This act allowed districts to reduce their contributions to TRS by the amount they contributed to the Teachers' Health Insurance Security Fund. The diversion was effective January 1, 2002 through June 30, 2003.

² Excludes minimum retirement contributions. Excludes employer ERO contributions through FY07. Beginning in FY08, employer ERO contributions are included because the costs of the ERO program are now included in the actuarial accrued liability. Beginning in FY06, employer contributions for excess salary increases are included. However, employer contributions for excess sick leave, which also began in FY06, are not included because there is no assumption for excess sick leave and it is not included in the funding requirements.

See accompanying Independent Auditors' Report.

Other Supplementary Information

Schedule of Administrative Expenses For Years Ended June 30

	2010	2009
Personal services	\$12,961,159	\$12,860,131
Professional services	998,956	1,428,771
Postage	442,765	430,707
Machine repair and rental	650,835	642,351
Other contractual services	739,482	830,099
Commodities	376,038	474,844
Occupancy expense	242,712	250,955
Depreciation	538,732	481,614
(Gain) on disposal of equipment	0	(11,536)
Total administrative expenses	<u>\$16,950,679</u>	<u>\$17,387,936</u>

Schedule of Investment Expense For Years Ended June 30

	2010	2009
Investment manager fees	\$180,486,189	\$159,192,773
Private equity investment expense	2,176,648	12,654,785
Miscellaneous	18,104,100	20,966,888
Total investment expense	<u>\$200,766,937</u>	<u>\$192,814,446</u>

Schedule of Payments to Consultants For Years Ended June 30

	2010	2009
Actuarial services	\$312,730	\$238,638
External auditors	148,487	160,716
Legal services	204,115	908,838
Management consultants		
Information systems	20,658	0
Legislative consultant	84,000	77,000
Information systems audit	23,203	0
Actuarial audit	73,467	0
Executive director search	97,310	0
Board and staff training	0	14,000
Operations	25,001	25,000
Other	9,985	4,579
Total payments to consultants	<u>\$998,956</u>	<u>\$1,428,771</u>

See accompanying Independent Auditors' Report.



History teacher Robert of Chatham with Alex.

I N V E S T M E N T S

Introduction

Financial markets rebounded during the fiscal year as global economies reflected signs of recovery from the deep recession and credit crisis. While debate continued as to the strength of any such recovery, FY10 was the first time since FY07 that the backdrop in the broad investment landscape was positive. Unemployment and real estate values remained concerning through the fiscal year, yet the United States and other developed countries continued implementing generous stimulus programs to aid the economic recovery. Equity returns in the United States led global markets over the past 12 months returning 15.7 percent, while international equity markets increased 11.5 percent.

Within this environment, the TRS investment portfolio posted a strong year, returning 13.5 percent, gross of fees, for the fiscal year ended June 30, 2010. Total TRS investments increased by approximately \$2.5 billion during the year, representing the sixth year of the past eight in which portfolio assets have increased.

The TRS portfolio remains fully diversified across different asset classes. A number of investment managers are utilized within each asset class to ensure the appropriate mixture across the various investment styles, allowing the portfolio to achieve broad exposure to the market while minimizing overall risk. This broad diversification serves as the best defense against the uncertainty of volatile global markets.

The TRS trust fund is invested by authority of the Illinois Pension Code under the “prudent person rule,” requiring investments to be managed solely in the interest of fund participants and beneficiaries. The TRS Investment Policy guides TRS’s investments. Investment principles include preserving the long-term principal of the trust fund, maximizing total return within prudent risk parameters, and acting in the exclusive interest of TRS members.

As master trustee, State Street Bank and Trust has provided to TRS, unless otherwise noted, detailed financial reports of all investments, receipts, disbursements, purchases and sales of securities, and other transactions pertinent to the fund for the period July 1, 2009 through June 30, 2010. A statement of detailed assets, along with their fair market value, was also provided as of June 30, 2010. Additionally, State Street Bank and Trust calculated performance rates of return by portfolio, composite, and for all respective indices used throughout this section. TRS staff, in collaboration with the staff of its custodian, prepared the Investments section.

A complete listing of investment holdings is available on request.

Summary Data June 30, 2010

Total Fund Market Value	\$31.5 billion
1-year return (net of fees)	12.9%
5-year return (net of fees)	2.0%
10-year return (net of fees)	3.3%
Percent externally managed	100.0%
Number of external managers	137
Custodian	State Street Bank and Trust
General consultant	R. V. Kuhns and Associates, Inc.

TRS is ranked 38th out of the top 1,000 U.S. pension funds/plan sponsors in the February 8, 2010 issue of *Pensions & Investments*. Rankings are based on market value of total assets at September 30, 2009.

Fund Performance vs. Benchmarks and Market Values

As of June 30, 2010, TRS's total investments at market value totaled \$31.5 billion, an increase of \$2.5 billion from last year.

A summary of holdings and assets is discussed throughout the Investment Section. The totals represent the actual assets (gross of any liabilities, amounts due to brokers, and expenses). The liabilities of the fund are included in the Statements of Plan Assets located on page 24.

TRS had a total fund annualized return of 13.5 percent, gross of fees, and 12.9 percent, net of fees, for the one-year period ending June 30, 2010. The Performance Summary table shows the performance of the total investment portfolio versus comparative benchmarks.

As illustrated in the Performance Summary table, TRS total fund performance for FY10 surpassed the policy index by 2.0 percentage points for the year ended June 30, 2010. The policy index represents a weighted average of each asset class benchmark, based on the total fund's target asset allocation. The total return also surpassed the 8.5 percent actuarial return assumption and the real rate of return expectation, which is to exceed the rate of inflation, as measured by the Consumer Price Index, by 5.0 percent.

Performance Summary (net of fees)

Asset Class/Index	Years ended June 30					Annualized at 6/30/10		
	2010	2009	2008	2007	2006	3 Years	5 Years	10 Years
TRS Total Fund	12.9%	(22.7%)	(5.0%)	19.2%	11.8%	(6.0%)	2.0%	3.3%
TRS Weighted Policy Index	10.9	(18.6)	(4.1)	17.9	11.3	(4.7)	2.6	3.1
CPI (Inflation)	1.1	(1.4)	5.0	2.7	4.3	1.5	2.3	2.4
TRS Equity - U.S.	17.0	(27.3)	(15.1)	19.4	9.6	(10.3)	(1.1)	(0.7)
Russell 3000 Index	15.7	(26.6)	(12.7)	20.1	9.6	(9.5)	(0.5)	(0.9)
TRS Fixed Income	16.8	4.9	5.1	5.9	0.1	8.8	6.4	6.7
TRS Fixed Income Index	9.5	6.1	7.1	6.1	(0.7)	7.6	5.6	6.3
TRS Equity - International	11.3	(31.9)	(7.7)	29.6	27.3	(11.2)	2.9	2.5
Non-U.S. Equity Index	11.5	(30.5)	(6.2)	30.2	28.4	(10.1)	4.0	2.4
TRS Real Estate	(5.6)	(30.0)	4.5	25.3	18.8	(11.6)	0.6	5.5
Real Estate Property Index	(1.5)	(19.6)	9.2	17.2	18.7	(4.7)	3.8	7.2
TRS Private Equity	16.5	(17.9)	3.3	29.3	23.8	(0.4)	9.6	4.4
Russell 3000 Index + 3.0%*	19.2	(24.3)	(10.0)	23.7	12.9	(6.7)	2.5	2.1
TRS Real Return	13.5	(26.2)	20.5	-	-	0.3	-	-
CPI (Inflation) + 5.0%*	6.1	3.5	10.3	-	-	6.6	-	-
TRS Absolute Return	9.6	(13.9)	0.9	-	-	(1.7)	-	-
90-Day Treasury Bill + 4.0%*	4.2	5.0	7.8	-	-	5.6	-	-

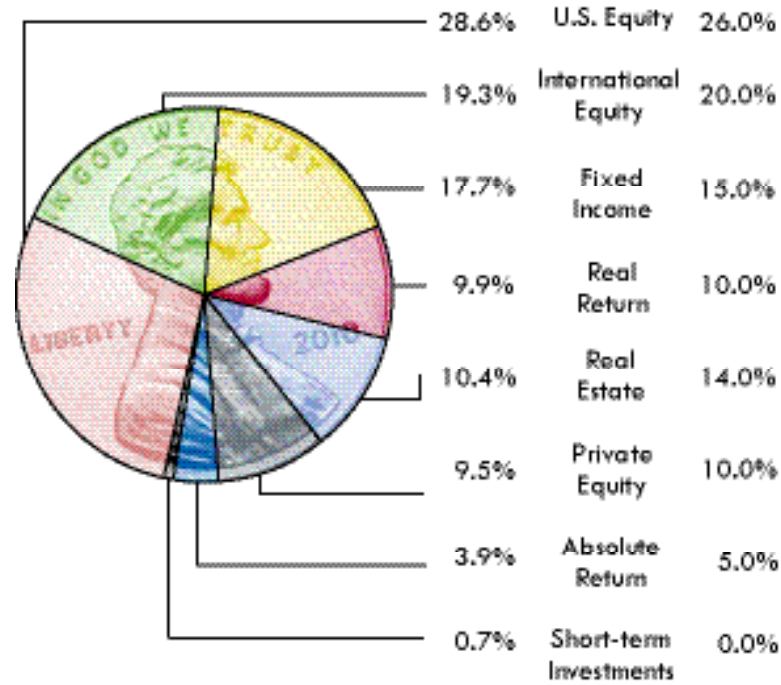
* Index compounded monthly.

Note: Time-weighted rates of return based on the market rate of return are provided by State Street Bank and Trust.

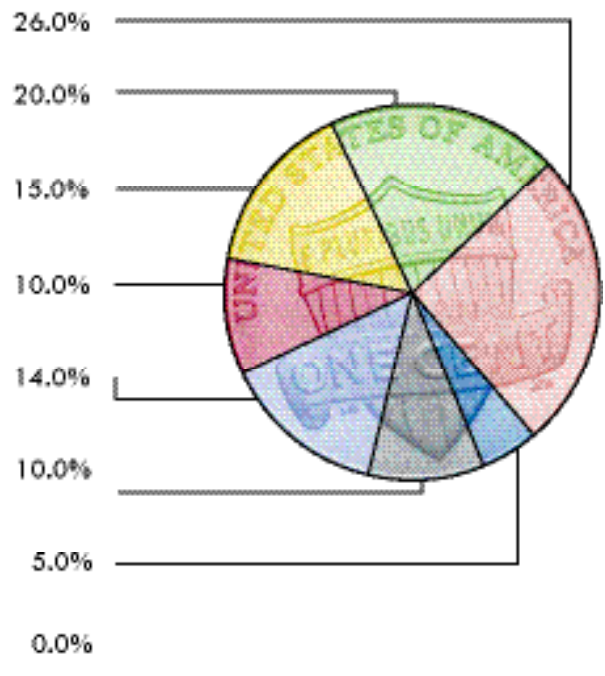
Asset Allocation vs. Targets

A pension fund's most important investment policy decision is the selection of its asset allocation. Similar to other large institutional funds, TRS maintains a well-diversified portfolio to manage risk effectively.

FY10 Asset Allocation



Long-term Target Allocation



In FY10, TRS continued implementation of the large scale asset allocation study that was completed three years ago. This implementation has progressed at a measured pace as two new asset classes, absolute return and real return, were introduced to further diversify the investment portfolio and to reduce risk. Within the fiscal year, the real return asset class reached its long-term target of 10.0 percent of the fund.

An additional interim asset allocation occurred during FY10 with the result of reducing interim targets to domestic equity and real estate and increasing interim targets to fixed income and absolute return. Longer term targets were not altered during FY10. Asset rebalancing to established targets has occurred more frequently in the past year as market volatility has been unprecedentedly high.

The asset mix is periodically compared to the policy targets to determine when rebalancing of the fund or changes to the interim policy targets are necessary. The following Strategic Investment Listing table shows the asset allocation targets, as adopted by the Board of Trustees, compared to the total assets assigned to each particular asset class at June 30, 2010.

Strategic Investment Listing Allocation Targets vs. Total Assets

	6/30/10		FY10		FY09	
	Total Fund (\$ millions)	Actual Percent	Interim Target	Policy Target	Actual Percent	Policy Target
U.S. equities	\$8,939	28.6%	29.0%	26.0%	31.2%	30.5%
International equities	6,051	19.3	20.0	20.0	19.1	20.0
Fixed income	5,529	17.7	17.0	15.0	18.6	15.0
Real return	3,100	9.9	10.0	10.0	7.0	10.0
Real estate	3,252	10.4	12.0	14.0	11.9	14.0
Private equity	2,989	9.5	7.0	10.0	8.2	8.0
Absolute return	1,232	3.9	3.8	5.0	2.5	2.5
Short-term investments	211	0.7	1.2	0.0	1.5	0.0
Pending settlements/expenses*	179	NA	NA	NA	NA	NA
Total fund	\$31,482	100.0%	100.0%	100.0%	100.0%	100.0%

* The liability portion is placed within the Statements of Plan Net Assets.

Portfolio Securities Summary

The Portfolio Securities Summary table contains a detailed list of security types. The amounts in this table differ from the allocation percentages shown in the Strategic Investment Listing. The strategic listing represents assets assigned to managers within each asset class, whereas the security summary represents types of financial instruments. The differences are explained by the types of investments each manager is allowed to hold within its portfolio. For example, a U.S. equity manager holds not only common stock within its portfolio, but it may hold small amounts of short-term investments as well.

The principal differences between the strategic investment approach and the Portfolio Securities summary are:

- The Pacific Investment Management Company StocksPlus assignment is treated as equity on the Strategic Investment Listing, but categorized as bonds and corporate obligations in the securities summary. This manager provides enhanced index products that use both fixed income and futures to achieve an enhanced equity return.
- Short-term investments included within a manager's portfolio are categorized in the same way as the manager's primary assignment on the Strategic Investment Listing. In the securities summary, these investments are categorized as short-term investments.

Portfolio Securities Summary

	2010		2009	
	Market Value	% of Total	Market Value	% of Total
U.S. Government Obligations				
U.S. treasuries	\$649,461,814	2.1%	\$300,375,693	1.0%
U.S. federal agencies	253,893,175	0.8	334,260,961	1.2
U.S. government index linked bonds	287,871,078	0.9	195,845,375	0.7
U.S. government backed mortgages	955,686,526	3.0	1,642,564,054	5.7
U.S. municipals (taxable)	67,915,609	0.2	56,014,455	0.2
U.S. government backed bonds	110,671,769	0.4	-	-
U.S. government special situations	28,523,685	0.1	-	-
Credits				
Bank loans	988,929	0.0	13,928,309	0.0
Financial	694,537,178	2.2	829,021,837	2.9
Industrial	945,702,864	3.0	766,386,520	2.6
Utilities	89,049,210	0.3	223,845,079	0.8
Asset backed securities	337,410,443	1.1	242,291,664	0.8
Commercial mortgage backed securities	136,703,649	0.4	54,815,495	0.2
Collateralized mortgage obligations	322,117,221	1.0	604,540,058	2.1
Commingled/closed-end funds	71,868,583	0.2	85,399,730	0.3
Corporate convertible bonds	41,782,788	0.1	2,375,250	0.0
Foreign debt obligations	1,557,088,214	5.0	1,022,504,237	3.5
Total Bonds, Corporate Notes, and Government Obligations	6,551,272,735	20.8	6,374,168,717	22.0
Equities				
Common stock - U.S.	8,098,482,440	25.7	7,988,982,368	27.6
Preferred stock - U.S.	37,372,707	0.1	57,209,873	0.2
Common stock - international	6,155,400,882	19.6	5,335,746,892	18.4
Preferred stock - international	120,403,725	0.4	137,530,669	0.5
Total Equities	14,411,659,754	45.8	13,519,469,802	46.7
Real Return – Commingled Funds				
Commodity funds	262,150,416	0.8	340,890,337	1.2
Global macro strategies	2,033,277,459	6.5	1,190,240,068	4.1
Total Real Return – Commingled Funds	2,295,427,875	7.3	1,531,130,405	5.3
Short-Term Investments/ Cash Equivalents	683,859,686	2.2	1,062,916,049	3.7
Derivatives – Options, Futures, and Swaps	(3,507,417)	0.0	(6,846,436)	0.0
Foreign Currency	68,454,294	0.2	35,797,184	0.1
Absolute Return	1,231,558,537	3.9	719,854,863	2.5
Private Equity	2,990,955,411	9.5	2,344,035,473	8.1
Real Estate Equity	3,252,463,291	10.3	3,380,826,272	11.6
TRS Total Portfolio	\$31,482,144,166	100.0%	\$28,961,352,329	100.0%

Securities Holdings (Historical)

Historically, TRS has adopted various asset allocation strategies. The Asset Allocation table shows the actual asset allocation based on asset types for the last five-year period.

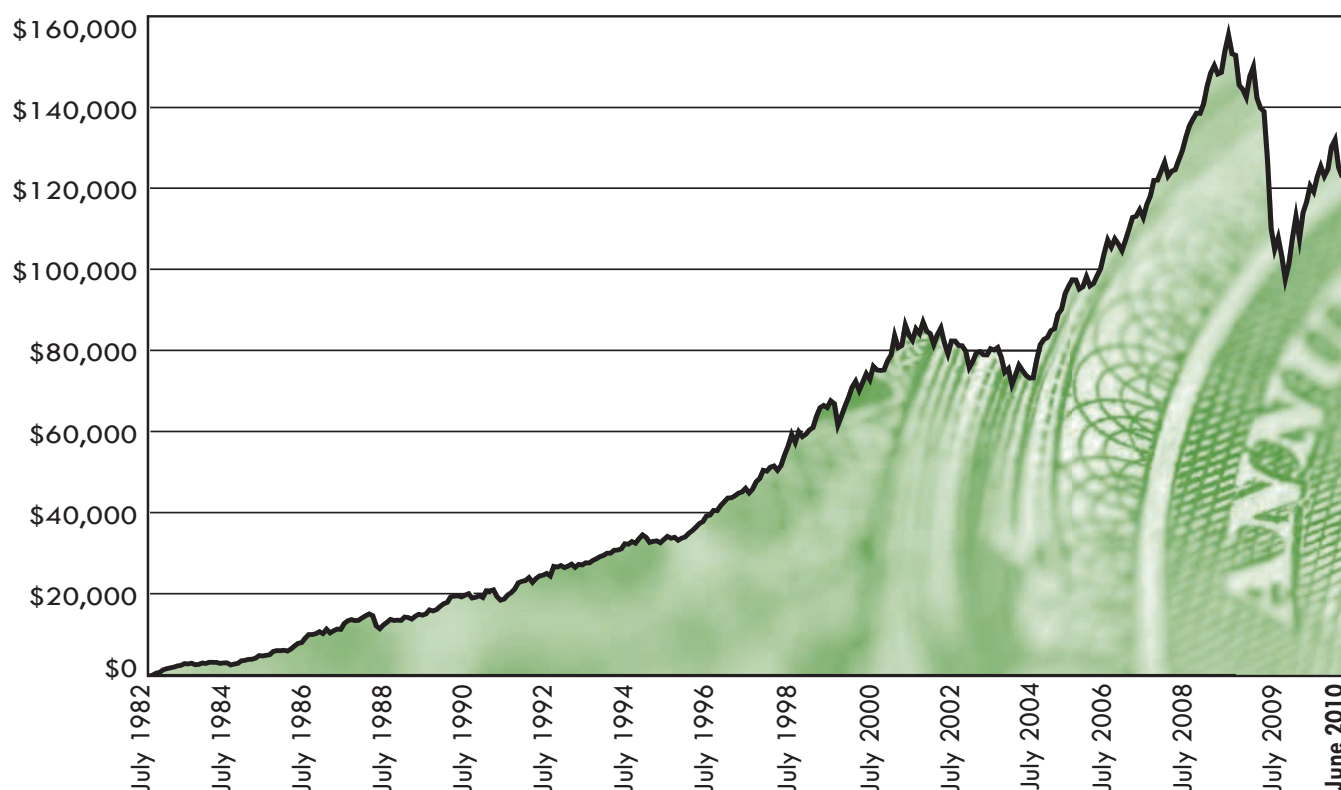
Securities Holdings for Years Ending June 30

Asset Type	2010	2009	2008	2007	2006
Bonds, corporate notes, and government obligations	20.8%	22.0%	22.7%	24.0%	27.9%
Equities - U.S.	25.8	27.8	27.5	33.0	33.6
Equities - international	20.0	18.9	21.5	22.6	19.8
Real return	7.3	5.3	5.4	-	-
Short-term investments/currency	2.4	3.8	3.4	3.6	4.2
Absolute return	3.9	2.5	1.3	1.2	-
Private equity	9.5	8.1	6.1	4.5	4.0
Real estate equity	10.3	11.6	12.1	11.1	10.5
Totals	100.0%	100.0%	100.0%	100.0%	100.0%

Source: TRS

Over the years, TRS's asset allocation has provided consistent overall returns, as represented by the following chart showing the growth of \$10,000 over the last 28 years.

Growth of \$10,000



Source: TRS

The following sections provide a brief and informative overview of the various asset classes utilized by TRS for the period ending June 30, 2010.

U.S. Equity

U.S. equity, or common stock, represents shares or units of ownership in public corporations domiciled within the United States. TRS invests in equities because the asset class offers the opportunity to participate in the success of the U.S. economy and specific corporations within it. Stockholders share in the growth of a company through an increase in stock price, as well as through the distribution of corporate profits in the form of dividends.

For the fiscal year, TRS's U.S. equity portfolio earned a 17.0 percent return on a net of fee basis, compared to the Russell 3000 Index gain of 15.7 percent. One-, three-, five-, and 10-year comparisons to this benchmark are noted below:

	FY10	3-Year	5-Year	10-Year
TRS, net of fees	17.0%	(10.3%)	(1.1%)	(0.7%)
Russell 3000 Index	15.7	(9.5)	(0.5)	(0.9)

The top 10 U.S. equity holdings at June 30, 2010, are listed below and represent 9.3 percent of total U.S. equity holdings. A complete listing of investment holdings is available as a separate report.

Top 10 U.S. Equity Holdings at June 30, 2010

Firm	Market Value
Apple, Inc.	\$127,963,121
Wells Fargo & Co.	92,150,758
Exxon Mobil Corp.	90,738,888
JP Morgan Chase & Co.	73,908,122
PepsiCo, Inc.	64,524,413
Cisco Systems, Inc.	64,486,340
Microsoft Corp.	64,329,333
Chevron Corp.	62,967,701
Bank of America Corp.	60,436,182
General Electric Co.	57,520,803
Total	<u>\$759,025,661</u>

Source: State Street Bank and Trust and TRS

At June 30, 2010, 28.6 percent of TRS's investment portfolio was assigned to U.S. equity managers. TRS employed the following U.S. equity managers during FY10.

U.S. Equity Managers and Assets Under Management (inception date of account)

Index (Large Cap)

RhumbLine Advisors, L.P. (7/06)	\$1,253,355,088
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Enhanced Index (Large Cap)

Piedmont Investment Advisors, L.L.C. (6/07)	86,548,974
T. Rowe Price Associates, Inc. (6/05)	607,555,955

Large Cap Core

Analytic Investors, L.L.C. (12/07)	448,479,489
EARNEST Partners, L.L.C. (2/02)	87,449,466
J.P. Morgan Investment Management, Inc. (12/07)	440,756,846
Pacific Investment Management Company, L.L.C. (8/91)	428,953,815

Large Cap Value

Denali Advisors, L.L.C. (4/08)	191,888,074
Dodge & Cox (4/00)	383,139,116
Loomis, Sayles & Company, L.P. (3/10)	235,898,791
Robeco Boston Partners Asset Management, L.P. (1/03)	344,884,834
Robeco Boston Partners Asset Management, L.P. (3/10)	89,310,131

Large Cap Growth

T. Rowe Price Associates, Inc. (11/06)	429,707,255
Turner Investment Partners, Inc. (6/04)	619,765,956
Wellington Management Company, L.P. (11/07)	249,837,801

Index (Small/Mid Cap Core)

Rhumbline Advisors, L.P. (5/07)	278,946,901
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Small/Mid Cap Value

Boston Company Asset Management, L.L.C. (7/08)	285,378,209
Cramer Rosenthal McGlynn, L.L.C. (3/09)	135,902,383
LSV Asset Management (12/02)	338,740,009
State Street Global Advisors (6/06)	132,208,277

Small/Mid Cap Growth

Boston Company Asset Management, L.L.C. (3/09)	135,016,296
Copper Rock Capital Partners, L.L.C. (12/06)	182,472,544
Fred Alger Management, Inc. (12/07)	136,525,275
Mazama Capital Management, Inc. (1/03)	115,570,253
Tygh Capital Management, Inc. (6/06)	220,661,586

Small Cap Growth

Emerald Advisors, Inc. (11/04)	188,747,934
Frontier Capital Management, L.L.C. (7/09)	185,479,068
Mazama Capital Management, Inc. (11/04)	141,775,228

Small Cap Value

AQR Capital Management, L.L.C. (11/06)	193,404,825
Thompson, Siegel & Walmsley, Inc. (11/04)	187,003,254

Emerging Manager

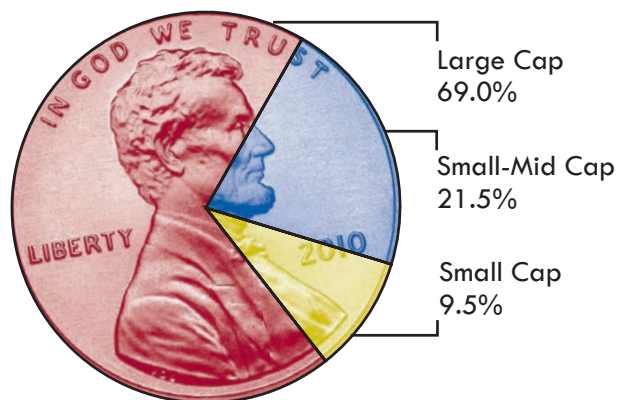
Credo Capital Management (6/09)	29,293,151
Fiduciary Management Associates, L.L.C. (7/08)	44,371,586
Lombardia Capital Partners, L.L.C. (11/08)	39,426,655
Lombardia Capital Partners, L.L.C. (3/10)	45,777,967
Oakbrook Investments (11/09)	25,095,474

Note: The list does not include managers terminated prior to June 30, 2010 with residual assets in the account.

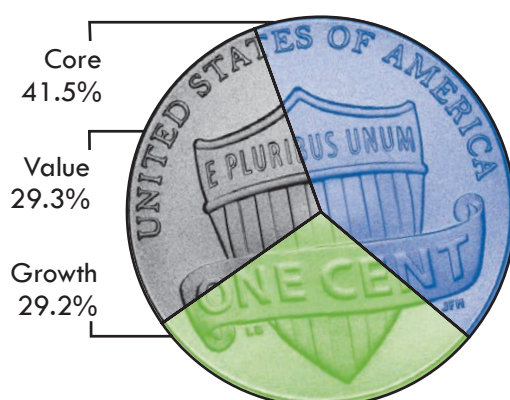
Discussion of U.S. Equity

Investment managers are chosen to diversify the portfolio on both a capitalization and style basis. This diversification is important for controlling the risk of the portfolio, as well as balancing the portfolio against the broad benchmark and economy.

Capitalization



Market Style



Source: TRS Investment Policy

The sharp recovery in the U.S. equity market that began in March 2009 continued through April 2010 as fear abated and investors sought higher investment returns. The broad U.S. stock market (Russell 3000 index) was up 33.3 percent from June 30, 2009 through April 30, 2010. The market then declined 13.2 percent during the remainder of the fiscal year sparked by European sovereign debt concerns. The TRS domestic equity portfolio was up 17.0 percent for the fiscal year, beating its Russell 3000 benchmark by approximately 1.3 percentage points. The outperformance was driven by a structural overweight to smaller companies as well as superior stock selection by investment managers in an environment characterized by a higher market focus on company fundamentals.

Statistical Data

The following tables convey various statistics, including attribution and sector analysis, of the U.S. equity portfolio as compared to TRS's domestic equity benchmark, the Russell 3000 Index. The Russell 3000 Index is a broad market benchmark representing 98 percent of the investible U.S. equity market.

TRS Domestic Equity as of June 30, 2010

Characteristic	TRS Domestic Equity	Russell 3000 Index
Weighted average market cap (\$ billions)	\$38.6	\$59.0
Price/earnings ratio	20.0x	17.5x
Dividend yield	1.5%	2.0%
Beta	1.1	1.0
5-year EPS growth	7.0%	6.1%
Price/book ratio	2.8x	2.9x

Source: State Street Bank and Trust

U.S. Equity – Diversification by Industry Sector for Year Ending June 30, 2010

Sector	TRS Domestic Equity Weighting	Russell 3000 Index Weighting
Consumer discretionary	14.3%	11.9%
Consumer durables	6.2	8.6
Energy	8.2	9.8
Financial services	17.5	17.4
Health care	12.4	12.2
Industrials	12.3	11.6
Materials	4.1	4.0
Technology	20.0	17.9
Telecommunication services	2.5	2.8
Utilities	2.5	3.8
Total	100.0%	100.0%

Source: State Street Bank and Trust and TRS

International Equity

International equity, or common stock, represents shares or units of ownership in public corporations domiciled outside the United States. International investing provides important diversification benefits to the TRS portfolio. While the international economy has increasingly become more global in nature, not all economies move in tandem. TRS's international equity managers are able to participate in the strength of individual markets, thus enhancing the TRS total portfolio. Additionally, corporations worldwide have expanded their global reach. The international equity portfolio is able to seek out superior companies operating multi-nationally, or companies that are particularly strong in their own markets or industries.

For the year ended June 30, 2010, the international equity asset class returned 11.3 percent on a net of fee basis compared to the Morgan Stanley Capital International (MSCI) All Country World Excluding U.S. Free Index (identified as Non-U.S. Equity Index in the following references) return of 11.5 percent. One-, three-, five-, and 10-year comparisons to this benchmark are in the following table:

	FY10	3-Year	5-Year	10-Year
TRS, net of fees	11.3%	(11.2%)	2.9%	2.5%
Non-U.S. Equity Index	11.5	(10.1)	4.0	2.4

The top 10 international equity holdings as of June 30, 2010 follow and represent 8.7 percent of the total international equity holdings. These investments are diversified geographically and include companies that are dominant within their industry and familiar to the U.S. economy.

Top 10 International Equity Holdings at June 30, 2010

Firm	Country	Market Value (USD)
Novartis AG	Switzerland	\$71,502,538
GlaxoSmithKline	United Kingdom	69,061,958
Nestle SA	Switzerland	66,020,039
Vodafone Group PLC	United Kingdom	56,266,978
Carrefour	France	49,622,379
Canon, Inc.	Japan	49,049,594
Standard Chartered	United Kingdom	48,665,426
France Telecom	France	45,916,573
Deutsche Telekom	Germany	44,400,412
BG Group	United Kingdom	43,667,930
Total		<u>\$544,173,827</u>

Source: State Street Bank and Trust and TRS

At June 30, 2010, 19.3 percent of the TRS investment portfolio was assigned to international equity managers. TRS employed the following international equity managers during FY10.

International Equity Managers and Assets Under Management (inception date of account)

Large Cap Growth

Jarislowsky, Fraser Limited (8/05)	\$333,869,902
McKinley Capital Management, Inc. (8/05)	829,208,544
State Street Global Advisors (8/05)	347,964,139
Trilogy Global Advisors, L.L.C. (8/07)	306,241,395

Large Cap Value

Brandes Investment Partners, L.P. (2/98)	857,845,523
Mondrian Investment Partners Limited (4/93)	902,338,055

Passive Non-U.S.

Blackrock Institutional Trust Company, N.A. (5/07)	152,347,940
State Street Global Markets (6/09)	249,527,890

Small Cap

American Century Global Investment Management, Inc. (6/08)	183,456,746
Dimensional Fund Advisors, L.P. (6/08)	166,008,666
Putnam Advisory Company, L.L.C. (3/09)	180,586,464
State Street Global Markets (8/07)	104,438,598

Emerging Markets

Aberdeen Asset Management, Inc. (3/08)	306,302,395
Grantham, Mayo, Van Otterloo & Co., L.L.C. (3/03)	781,281,259

Note: The list does not include managers terminated prior to June 30, 2010 with residual assets in the account.

Discussion of International Equity

The International Equity Manager Structure table provides a further breakdown of the styles within the international equity portfolio. The actual allocation has become more aligned with the targets as TRS prudently rebalanced investments from transitional passive assets to active core accounts while implementing the asset allocation study approved in FY07.

International Equity Manager Structure

International Equity Classification	Target	Actual
Enhanced passive non-U.S.	5.8%	6.7%
Active core	65.7	64.8
Small cap	12.0	10.5
Emerging markets	16.5	18.0
Total	100.0%	100.0%

International equity markets posted solid gains for the year ended June 30, 2010, advancing 11.5 percent as measured by the MSCI All Country Ex-U.S. Free Index ("ACWI"). Like the U.S. equity markets, international equities performed well over the first three quarters of fiscal year 2010, advancing over 25 percent. However, the Greek sovereign debt crisis brought renewed concerns over the stability of global markets and led to a 12.2 percent decline in the fourth quarter.

The best-performing international segment was the collective emerging markets regions, which are classified as developing economies in the international markets and represent a 24.0 percent weighting of the international index. Within the emerging markets, the Latin American region was the best performer, led by a strong 31.8 percent gain in Mexico. The smaller Latin American countries of Colombia and Peru had the best returns in the region up 53.6 and 52.2 percent, respectively. In the developed portion of the non-U.S. markets, Sweden, which represents just 1.75 percent of the international index, was the best-performing market for the year. Sweden benefited from its minimal exposure to the sovereign debt crisis that spread across the Euro-based European region. Europe, the largest international equity region representing 43.0 percent of the MSCI ACWI Index, underperformed the broad market advance, appreciating by 6.3 percent. Greece was the worst-performing European country due to its sovereign debt concerns, dropping 46.7 percent.

The TRS international equity portfolio recorded positive returns for FY10 gaining 11.3 percent, net of fees, but underperformed its index by 0.2 of a percentage point. The portfolio's defensive positioning posted solid relative performance during the fourth quarter pullback outperforming its benchmark by 0.6 of a percentage point, but this defensive stance made the portfolio unable to keep up with the strong rally that began the fiscal year.

Portfolio Characteristics

The next two charts convey the fundamental characteristics and the regional exposure of the international equity portfolio.

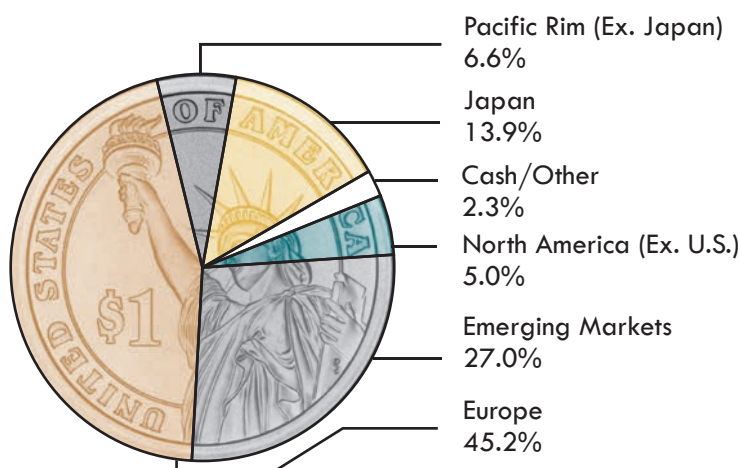
International Equity Fundamental Characteristics

Characteristic	TRS International Equity	Non-U.S. Equity Index
Weighted average market cap (\$ billions)	\$30.9	\$37.0
Price/earnings ratio	17.3x	17.9x
Dividend yield	3.0%	2.9%
Price/book ratio	2.4x	2.5x

Source: State Street Bank and Trust

Regional Allocation Comparison June 30, 2010

TRS International Equity Exposure



Global Fixed Income

Global fixed income is a financial obligation of an entity including, but not limited to, U.S. and foreign corporations, governments, agencies, indices, or municipalities. These entities promise to pay a specified sum of money at a future date and represent a contractual obligation of a debt or a loan. The issuer of debt is the borrower of capital and the purchaser, or holder of bonds, is the creditor or lender.

Global fixed income is an important asset class in a well-diversified portfolio; these investments can reduce volatility, offer low or negative correlation to other asset classes and provide income streams, or coupons, essential to the growth of the overall portfolio.

For the year ended June 30, 2010, TRS's fixed income managers earned a 16.8 percent return, net of fees, compared to the 9.5 percent return of the benchmark, the Barclays Capital Aggregate Index. For periods longer than two years, TRS utilized a blended index of U.S. and non-dollar targets.

One-, three-, five-, and 10-year comparisons to the relative benchmarks are noted below:

	FY10	3-Year	5-Year	10-Year
TRS, net of fees	16.8%	8.8%	6.4%	6.7%
TRS Fixed Income Index	9.5	7.6	5.6	6.3

The following table lists the top 10 global fixed income securities held by all TRS's managers as of June 30, 2010. To-be-announced (TBA) mortgages are underlying contracts on mortgage-backed securities (MBS) to buy or sell a MBS which will be delivered at an agreed-upon date in the future. A complete listing of investment holdings is available as a separate report.

Top 10 Global Fixed Income Holdings at June 30, 2010

Security/Position	Rate	Market Value
U.S. Treasury Note	0.75%	\$96,678,596
Canada, Government of	2.50	85,366,395
Federal Home Loan Mortgage Corp. Discount Note	0.25	78,568,560
Federal National Mortgage Association TBA	6.50	50,377,360
U.S. Treasury Bond	2.38	46,560,026
Goldman Sachs Collective Trust Debt Implementation Fund	-	45,615,342
U.S. Treasury Note	0.63	41,449,857
American International Group, Inc.	8.25	38,778,750
U.S. Treasury Inflation Index Linked Note	1.63	35,794,862
U.S. Treasury Note	5.13	33,077,198
Total		<u>\$552,266,946</u>

Source: State Street Bank and Trust and TRS

At June 30, 2010, 17.7 percent of the TRS investment portfolio was assigned to global fixed income. The following table categorizes manager assignments. It excludes fixed income assets managed by managers in other asset classes which might invest in fixed income securities as a small part of their overall strategies.

Global Fixed Income Managers and Assets Under Management (inception date of account)

Core Plus

Dolan McEniry Capital Management, L.L.C. (5/06)	\$189,397,134
Goldman Sachs Asset Management, L.P. (5/06)	1,022,578,281
Pacific Investment Management Company, L.L.C. (7/82)	1,228,443,369
Taplin, Canida & Habacht (3/04)	423,870,539

International

Franklin Advisers, Inc. (2/08)	714,095,269
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Enhanced Indexed

Prudential Investment Management, Inc. (12/08)	1,017,228,572
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Long Duration

Loomis Sayles & Company, L.P. (6/08)	800,446,997
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Emerging Manager

Davis Hamilton Jackson & Associates, L.P. (6/10)	25,327,822
LM Capital Group, L.L.C. (12/09)	26,018,024

Special Situations

Oaktree PPIP Private Fund, L.P. (3/10)	11,501,971
Pacific Investment Management Company, L.L.C. (4/09)	25,846,846
PIMCO Private Funds II, L.P. (7/09)	17,021,714

Note: This list does not include certain managers terminated prior to June 30, 2010 with residual assets in the account.

Discussion of Global Fixed Income

The TRS fixed income portfolio outperformed the Barclay's Capital Aggregate index by nearly 7.3 percentage points, net of fees, during the fiscal year. TRS's overweight to most spread sectors took advantage of unprecedented spread compression in the markets. Other areas of strength included foreign denominated bonds, which took advantage of the weak U.S. dollar and investments in special situations such as the term asset-backed loan facility (TALF). Although TRS began the year short relative duration, as the year progressed and it became evident the Federal Reserve was not going to increase rates, the portfolio shifted to a slightly longer duration taking advantage of higher yielding positioning. Throughout

the year, TRS maintained a similar risk profile relative to the index and a risk profile much lower than nominal treasury positions.

The following data provides statistical information on TRS's global fixed income portfolio.

Statistical Data

Global Fixed Income Profile

Characteristic	TRS Fixed Income Portfolio 6/30/10	Barclays Capital Aggregate Index 6/30/10	TRS Fixed Income Portfolio 6/30/09	Barclays Capital Aggregate Index 6/30/09
Average maturity	9.3 years	5.9 years	7.8 years	5.9 years
Effective duration	4.8 years	4.1 years	4.8 years	4.2 years
Average coupon	4.8%	4.5%	5.0%	5.0%
Average quality rating	Aa3	Aa1	Aa3	Aaa
Current yield	4.4%	2.5%	5.5%	4.8%

Source: TRS

Diversification by Quality Rating for Global Fixed Income Portfolios

Moody's Quality Rating	2010	2009
Agency	0.0%	1.0%
Aaa*	48.0	51.9
Aa1 through Aa3	5.5	5.9
A1 through A3	11.5	13.4
Baa1 through Baa3	16.0	15.8
Ba1 through Ba3	7.9	4.6
B1 through B3	3.2	2.9
Other**	7.9	4.5
Total	100.0%	100.0%

* Aaa includes Treasury securities

** Other includes under B3 and unrated securities.

Note: Chart includes enhance equity indexed underlying bond holdings.

Source: State Street Bank and Trust and TRS

Real Return

The real return asset class is recognition of the significant impact inflation can have on an investment portfolio and its return objectives. Traditional asset classes, such as stocks and bonds, tend to perform well in periods of stable or falling inflation. However, inflationary periods have historically been very challenging for these asset classes.

The objective of the real return asset class is to exceed the Consumer Price Index (CPI) by 5.0 percent over a five- to 10-year period of time. Real return strategies are generally less correlated with traditional stock and bond portfolios and provide inflation protection and excess returns during periods of rising inflation while reducing overall risk to the total fund. It should be noted that the CPI is not an investible benchmark, but is utilized as a benchmark given the intent of the asset class. For the year ended June 30, 2010, TRS's real return asset class earned 13.5 percent, net of fees, compared to the 6.1 percent return of the benchmark.

	FY10	3-Year
TRS, net of fees	13.5%	0.3%
Consumer Price Index + 5%	6.1	6.6

At June 30, 2010, 9.9 percent of TRS's investment portfolio was assigned to real return managers. TRS employed real return managers to use global inflation-linked, global macro, and commodity based strategies during FY10. As of June 30, 2010, TRS employed the following managers and/or funds including their respective assets under management.

Real Return Managers and Assets Under Management (inception date of account)

Global Inflation-linked Bonds

New Century Advisors, L.L.C. (2/08)	\$71,577,135
Pacific Investment Management Company, L.L.C. (5/07)	328,273,823
Western Asset Management Company (2/05)	296,944,977

Global Macro Strategies

AQR Global Risk Premium Tactical Offshore Fund II, Ltd. (7/07)	526,370,288
Bridgewater All Weather Portfolio Offshore Limited (7/07)	695,823,440
PIMCO Global Multi-Asset Strategy (12/09)	415,737,541
Wellington Management Company - Diversified Inflation Hedges Portfolio, L.L.C. (9/07)	502,703,921

Commodities

Gresham Investment Management Company, L.L.C. (3/09)	101,464,023
Schroder Commodity Offshore Portfolio, L.L.P. (3/08)	160,686,393

Discussion of Real Return

The 13.5 percent return of the real return asset class during the fiscal year was lead by investments in the global macro sector which earned 17.7 percent, followed by global inflation-linked bonds earning 5.7 percent and commodities 5.4 percent, all net of fees. The real return portfolio continues to serve as a portfolio diversifier and protection against the effects of inflation on the fund. The asset class maintains a risk profile between stocks and bonds. During the fiscal year, TRS increased the real return asset class allocation from 7 percent in FY09 to the policy target of 10 percent in FY10.

Real Return Targets and Actual Allocation as of June 30, 2010

Real Return Subclasses	Target	Actual
Global inflation-linked bonds	24.0%	22.5%
Global macro strategies	66.0	69.0
Commodities	10.0	8.5
Total	100.0%	100.0%

Source: TRS

Private Equity

Private equity includes investments that are placed and traded outside of the stock exchanges and other public markets. Over the long term, they are an attractive investment for pension funds, endowments, insurance companies, and other sophisticated investors. The investment class benefits the economy by providing needed capital to start-up companies and for continued growth in privately held companies and firms that are restructuring to better compete. There is additional risk investing in private equity, but with skillful selection of managers, returns can be significantly higher than public equity investments.

The asset class is commonly referred to as private equity, even though it includes privately placed debt instruments as well. Often, the debt includes a control position that is similar to equity because it allows the debt holder to influence the operations and management of the company. TRS is widely diversified

across all sub-sectors within private equity, including buyout, venture capital, subordinated debt, and distressed debt.

TRS measures private equity performance against the Russell 3000 stock index plus 300 basis points (3 percentage points). This benchmark does not specifically compare performance to the private equity industry, but rather to the TRS long-term expectation that private equity produce returns superior to the public markets. For the one-year period ending June 30, 2010, private equity earned 16.5 percent on a net of fee basis, compared to the benchmark gain of 19.2 percent.

In general, an investor must look at a much longer-term investment horizon to measure the success of a private equity program. TRS's investments in private equity maintain a very strong long-term return, outperforming the benchmark by 2.3 percentage points over the 10-year period. This performance, as well as the performance of the private equity portfolio since TRS first began investing in private equity, is well above expectations. One-, three-, five-, and 10-year comparisons to this benchmark are noted in the following table:

	FY10	3-Year	5-Year	10-Year
TRS, net of fees	16.5%	(0.4%)	9.6%	4.4%
Russell 3000 Index + 3.0%	19.2	(6.7)	2.5	2.1

At June 30, 2010, 9.5 percent of the TRS investment portfolio was assigned to the private equity asset class. The long-term target for private equity is 10 percent of the total fund. The following chart lists the private equity partnerships/funds (and the respective assets under management) that TRS has investments or commitments to invest with as of June 30, 2010.

Private Equity Partnerships and Assets Under Management (inception date of account)

Buyout

Advent International GPE VI, L.P. (7/08)	\$22,441,945
Apollo Investment Fund V, L.P. (5/01)	62,564,617
Apollo Investment Fund VI, L.P. (5/06)	141,751,150
Apollo Investment Fund VII, L.P. (1/08)	125,722,506
Banc Fund VI, L.P. (6/02)	29,221,125
Banc Fund VII, L.P. (5/05)	23,232,584
Carlyle Partners IV, L.P. (4/05)	108,302,676
Carlyle Partners V, L.P. (7/07)	64,548,697
Carlyle/Riverstone Global Energy and Power Fund II, L.P. (1/03)	44,594,145
Carlyle/Riverstone Global Energy and Power Fund III, L.P. (4/06)	97,145,563
Castle Harlan Partners IV, L.P. (5/03)	16,523,120
Code Hennessy & Simmons V, L.P. (2/05)	19,740,702
DLJ Merchant Banking Partners II, L.P. (3/97)	6,999,118
DLJ Merchant Banking Partners III, L.P. (9/00)	83,197,914
Elevation Partners, L.P. (4/05)	15,011,021
Energy Capital Partners I, L.P. (4/06)	28,659,384
Energy Capital Partners II, L.P. (9/09)	20,236,642
Evercore Capital Partners II, L.P. (4/03)	26,142,127
GI Partners (1/09)	6,496,291
Glencoe Capital Partners III, L.P. (1/04)	23,679,685
Glencoe Capital Institutional Partners III, L.P. (6/04)	5,754,778
Green Equity Investors V, L.P. (8/07)	42,243,779
GTCR Fund VII/VIIA, L.P. (3/00)	354,065
GTCR Fund VIII, L.P. (7/03)	21,602,329
Hispania Private Equity, L.P. (5/04)	761,185
ICV Partners II, L.P. (1/06)	7,190,120

Continued

J.C. Flowers II, L.P. (2/07)	\$13,675,222
KKR 1996 Fund, L.P. (5/97)	7,863,718
Madison Dearborn V, L.P. (7/06)	66,304,408
MBK Partners (5/09)	10,197,737
Mesirow Capital Partners VII, L.P. (6/97)	1,699,437
New Mountain Partners III, L.P. (8/07)	29,267,483
Onex Partners III, L.P. (04/09)	2,262,850
PAI Europe V, L.P. (4/08)	7,494,867
Pine Brook Capital Partners, L.P. (1/08)	15,587,213
Providence Equity Partners VI, L.P. (3/07)	73,774,327
Reliant Equity Partners, L.P. (6/04)	215,043
Riverstone/Carlyle GL IV (3/08)	45,934,010
Silver Lake Partners III, L.P. (8/07)	40,950,843
TCW/Latin America Private Equity Partners, L.P. (5/97)	38,798
Thayer Equity Investors V, L.P. (5/03)	50,315,436
TPG Partners IV, L.P. (12/03)	30,302,140
TPG Partners VI, L.P. (4/08)	22,335,649
Trilantic Capital Partners III, L.P. (4/05)	33,527,477
Trilantic Capital Partners IV, L.P. (10/07)	17,380,271
Trivest Fund II, Ltd. (4/96)	394,642
Vicente Capital Partners Growth Equity Fund, L.P. (4/08)	2,920,449
Vista Equity Partners Fund III, L.P. (11/07)	53,846,444
VS&A Communications Partners II, L.P. (8/95)	2,408,913
VSS Communication Partners IV, L.P. (3/05)	30,574,800
Welsh, Carson, Anderson & Stowe Capital Partners X, L.P. (8/05)	50,646,621
Windpoint Partners VI, L.P. (2/06)	21,890,721
WPG Corporate Development Associates V, L.P. (11/97)	1,041,577

Distressed Debt

Avenue Europe Special Situations Fund, L.P. (5/08)	36,190,930
Avenue Special Situations Fund V, L.P. (10/07)	114,982,596
Blackstone/GSO Capital Partners (9/09)	41,137,606
Carlyle Strategic Partners, L.P. (10/04)	28,191,927
Clearlake Capital Partners, L.L.C. (7/09)	7,716,715
MatlinPatterson Global Opportunities Fund II, L.P. (1/04)	23,280,420
MatlinPatterson Global Opportunities Fund III, L.P. (6/07)	49,744,787
MatlinPatterson Preferred II (3/09)	17,552,304
Oaktree Opportunities Fund VIII, L.P. (3/10)	27,916,601
OCM Opportunities Fund V, L.P. (6/04)	5,422,637
OCM Opportunities Fund VIIb, L.P. (6/08)	124,325,940
OCM European Principal Opportunities Fund II, L.P. (8/08)	42,993,764

Subordinated Debt

Maranon Mezzanine Fund, L.P. (8/09)	4,883,615
Merit Mezzanine Fund IV, L.P. (1/05)	48,017,949
Prism Mezzanine Fund, L.P. (12/04)	7,045,732
SW Pelham Fund II, L.P. (9/03)	7,983,266
Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P. (2/05)	36,287,299
William Blair Mezzanine Capital Fund II, L.P. (5/97)	3,924,593
William Blair Mezzanine Capital Fund III, L.P. (1/00)	10,378,262

Venture Capital

21st Century Communications T-E Partners, L.P. (2/95)	255,346
Apex Investment Fund V, L.P. (8/03)	9,960,457
Carlyle Venture Partners II, L.P. (10/02)	62,098,720
Carlyle Venture Partners III, L.P. (6/07)	34,638,421
Edgewater Growth Capital Partners, L.P. (11/03)	16,583,026
Edgewater Growth Capital Partners II, L.P. (2/06)	21,852,362

Continued

Evergreen Partners IV, L.P. (12/02)	\$11,453,453
Evergreen Partners V, L.P. (6/07)	9,547,257
Granite Ventures II, L.P. (5/05)	8,655,425
HealthPoint Partners, L.P. (6/04)	23,927,043
Hopewell Ventures, L.P. (6/04)	3,481,124
Illinois Emerging Technologies Fund, L.P. (6/04)	1,464,711
Longitude Venture Partners, L.P. (3/08)	14,276,466
SCP Private Equity Partners, L.P. (5/97)	1,309,826
SCP Private Equity Partners II, L.P. (6/00)	55,235,741
Shasta Ventures, L.P. (1/05)	16,312,189
Starvest Partners, L.P. (1/09)	2,988,009
Technology Crossover Ventures VII, L.P. (10/08)	6,982,764
VantagePoint Venture Partners IV, L.P. (6/00)	54,360,768
VantagePoint Venture Partners 2006, L.P. (12/06)	25,387,974
Warburg Pincus International Partners, L.P. (9/00)	67,788,263
Warburg Pincus International Partners IX, L.P. (9/05)	100,156,253
Warburg Pincus Private Equity X, L.P. (10/07)	112,178,731
WPG Enterprise Fund II, L.P. (8/94)	3,239,860
WPG Enterprise Fund III, L.P. (3/97)	8,932,119

Discussion of Private Equity

TRS's private equity portfolio increased 16.5 percent through the fiscal year. While under its benchmark over the one-year period, longer term private equity has outperformed on a three-, five- and 10-year basis. The overall performance strength of the private equity program and the asset class's diversification benefits the overall portfolio. TRS continues to steadily and prudently increase its exposure to private equity, with the full target allocation to the asset class expected in FY11. Successful implementation of this target is subject to many factors, including public market performance and sufficient availability of quality opportunities in the market. The following chart provides a further breakdown of TRS's targeted style allocation as compared to the actual allocation at June 30, 2010.

Private Equity Target and Actual Allocation as of June 30, 2010

Subclasses	Target	Actual
Buyout	60-80%	54.4%
Venture capital	10-25	22.5
Special situations/distressed debt/subordinated debt	5-20	23.1
Total		100.0%

Source: TRS

TRS made new commitments to five separate funds totaling close to \$425 million during the fiscal year. Included in this total were funds that can strategically benefit during recessionary or distressed-market environments. TRS remains opportunistic and continues to diversify its private equity portfolio for the global opportunity set. For FY11, the TRS private equity tactical plan calls for new commitments of approximately \$800 to \$1,200 million within the asset class.

Absolute Return

The absolute return asset class includes investment mandates that are expected to provide attractive return and risk attributes while exhibiting low correlation to the traditional asset classes of public equities and fixed income. Along with the real return asset class, the absolute return class was established as a result of the FY07 asset allocation study.

Investments in absolute return are administered via both direct investment manager relationships and diversified fund of funds. The long-term target allocation for the asset class is 5.0 percent of the overall TRS investment portfolio. Managers in this strategy are benchmarked to a relative risk-free index of 90-Day Treasury Bills + 4.0 percent. It is important to note this is not an investible index but is used as a benchmark given the risk reduction intent of the asset class.

For the year ended June 30, 2010, TRS's absolute return investment asset class earned 9.6 percent, net of fees, compared to the 4.2 percent return of the benchmark.

	FY10	3-Year
TRS, net of fees	9.6%	(1.7%)
Treasury Bill + 4%	4.2	5.6

At June 30, 2010, 3.9 percent of TRS's investment portfolio was assigned to absolute return managers and TRS employed the following managers including their respective assets under management.

Absolute Return Managers and Assets Under Management (inception date of account)

Diversified	
Bridgewater Pure Alpha Fund I (1/09)	\$326,389,216
Diversified Fund of Funds	
Grosvenor Monarch Fund, L.L.C. (6/07)	359,856,875
K2 Bluegill Fund, L.L.C. (6/07)	518,895,053
Emerging Manager	
Lasair Capital L.L.C. (8/09)	26,417,393

Discussion of Absolute Return

The absolute return asset class performed reasonably well given the severity and volatility associated with the market crisis and subsequent recovery. The absolute return portfolio outperformed its benchmark in FY10 due to strong performance of underlying managers combined with a tailwind associated with modest exposure to equity and credit markets. This modest equity exposure also explains the lagging performance for the trailing three-year period. Since its inception three years ago, the absolute return portfolio has outperformed U.S. equities by 8.6 percent, and has done so with less than one-third of the volatility.

Real Estate

Real estate investments are direct investments or ownership in land and buildings including apartments, offices, warehouses, shopping centers, and hotels. TRS also holds partnership interests in entities that purchase and manage property and pass rent and sale income back to TRS. Investment in real estate is intended to increase the TRS total portfolio long-term rate of return and reduce year-to-year volatility.

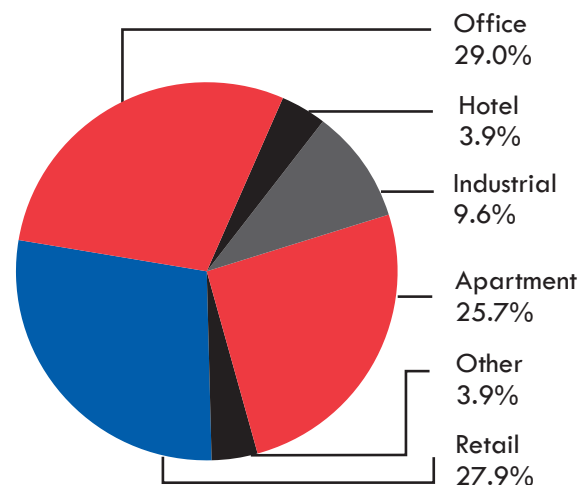
The real estate asset class offers competitive returns, provides diversification benefits to portfolios of stocks and bonds, and also serves as a hedge against inflation. Additionally, real estate offers a strong income component to pay TRS benefits.

As of June 30, 2010, TRS held \$3.3 billion in real estate assets, or 10.4 percent of the total fund portfolio. For the fiscal year, TRS's real estate investments declined 5.6 percent. Real estate performance and benchmark comparison are noted in the following table:

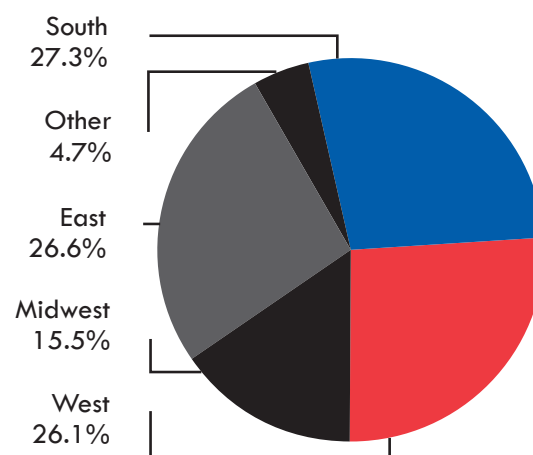
	FY10	3-Year	5-Year	10-Year
TRS, net of fees	(5.6%)	(11.6%)	0.6%	5.5%
Real Estate Property Index	(1.5)	(4.7)	3.8	7.2

To enhance returns and reduce risk, TRS acquires high quality properties diversified geographically and by property type. TRS's real estate holdings by type and geography are exhibited in the following charts.

Real Estate Holdings by Type as of June 30, 2010



Geographic Diversification of Real Estate Holdings as of June 30, 2010



Professional real estate advisors manage real estate owned by TRS. Separate account managers administer TRS's direct investments in real estate assets. Closed-end and open-end accounts represent partnership interests in real estate funds including TRS's international real estate accounts. As of June 30, 2010, TRS employed the following managers including their respective assets under management.

Real Estate Managers and Assets Under Management (inception date of account)

Separate Accounts

Capri/Capital Advisors, L.L.C. (12/91)	\$601,352,044
Cornerstone Real Estate Advisors, L.L.C. (7/08)	226,723,870
Cornerstone II S/A (7/09)	6,178,044
Cornerstone III S/A (8/09)	105,098,615
Cozad/Westchester Asset Management, Inc. (5/91)*	4,227,333
Heitman Capital Management, L.L.C. (7/09)	793,131,137
Invesco Institutional (N.A.), Inc. (7/08)	243,214,587
Koll Bren Schreiber Realty Advisors I (6/93)	263,320,728
LPC Realty Advisors I, Ltd. (7/92)	225,987,070
LPC Realty Advisors Core, Ltd. (4/07)	26,240,654

Closed-End Accounts

Beacon Capital Partners V, L.P. (8/07)	26,537,057
Blackstone Real Estate Partners VI, L.P. (9/07)	20,271,652
Capri/Capital Apartment Fund III (11/02)	109,527,997
Capri Select Income Fund II, L.L.C. (12/05)	4,660,783
Carlyle Realty Partners IV, L.P. (6/05)	49,283,935
Cornerstone Hotel Income & Equity Fund II, L.P. (7/08)	3,702,067
DLJ Real Estate Capital Partners, Inc. (3/96)*	568,226
JBC Opportunity Fund II, L.P. (5/03)	22,043,703

* In liquidation mode.

Continued

JER Real Estate Partners III, L.P. (1/05)	\$36,367,996
RLJ Lodging Fund II, L.P. (9/06)	29,216,288
RLJ Lodging Fund III, L.P. (9/08)	8,335,367
Thayer Hotel IV, L.P. (5/04)	6,270,720
Walton Street Capital IV, L.L.C. (7/03)	55,347,328
Walton Street Capital VI, L.L.C. (4/09)	19,772,626

Open-End Accounts

Hines U.S. Core Office Fund, L.P. (12/05)	122,032,575
Lion Industrial Trust (4/05)	131,477,257

International Real Estate Accounts

Carlyle Europe Real Estate Partners, L.P. (6/03)	16,036,959
Carlyle Europe Real Estate Partners III, L.P. (9/07)	15,003,408
CB Richard Ellis Strategic Partners Europe III (4/07)	36,537,062
CB Richard Ellis Strategic Partners U.K. III (5/07)	12,167,204
LaSalle Asia Opportunity Fund III, L.P. (11/07)	7,626,019
MGPA Asia Fund III, L.P. (12/07)	24,202,980

Discussion of Real Estate

The commercial real estate market continued to experience negative performance for the fiscal year ending June 30, 2010. However, performance significantly improved throughout the fiscal year. Fundamentals such as occupancy and rental rates began to strengthen, if only slightly, during the fiscal year attributing to a stabilization of property values. Transactions within commercial property began to increase with a focus on fully-leased, well-located core properties. The TRS investment portfolio has a long-term allocation of 14 percent to real estate and is currently 10.4 percent invested in the asset class. The portfolio will continue its efforts to move toward the long-term allocation through strategic allocations and opportunistically taking advantage of the property transaction market.

Brokerage Activity

The following table shows the top 50 listed brokers used by TRS external equity managers for the years ended June 30, 2010 and 2009. TRS also manages a commission recapture program as part of its trading strategies. For the year ended June 30, 2010, TRS recaptured \$0.8 million in cash that was reinvested in the fund. In addition, TRS uses a portion of these commission recapture refunds to pay for Investment Department expenses. During FY10, TRS used \$0.2 million of recaptured funds to offset expenditures.

Top 50 Brokers Used by TRS Managers

Broker	FY10 Commission	FY09 Commission
Merrill Lynch & Co., Inc. and all Subsidiaries (Worldwide)	\$2,208,488	\$2,250,354
Credit Suisse (Worldwide)	1,451,809	1,316,792
Goldman Sachs & Co. (Worldwide)	1,364,243	1,399,255
J.P. Morgan Securities, Inc. (Worldwide)	1,363,340	1,437,635
UBS Warburg Securities and all Subsidiaries (Worldwide)	1,180,196	897,741
Morgan Stanley & Co., Inc. and Subsidiaries (Worldwide)	958,438	1,103,759
Barclays (Worldwide)	935,045	577,860
Citigroup, Inc. and all Subsidiaries (Worldwide)	892,172	795,827
Bank of New York Mellon (Worldwide)	761,324	667,392
Instinet, L.L.C. (Worldwide)	697,429	809,675
Deutsche Bank & Securities (Worldwide)	579,915	750,059
Liquidnet, Inc.	516,936	620,586
Macquarie Bank & Securities, Ltd. (Worldwide)	381,794	250,924

Continued

Broker	FY10 Commission	FY09 Commission
Investment Technology Group, Inc. (Worldwide)	\$356,336	\$649,913
State Street Brokerage Services (Worldwide)	349,498	643,821
Pipeline Trading Systems, L.L.C.	331,741	97,075
Ivy Securities, Inc.	320,695	313,267
Cabrera Capital Markets, Inc.	312,754	279,410
Jefferies & Company	303,230	347,209
Loop Capital Markets, L.L.C.	285,386	123,384
Weeden & Co.	242,140	195,391
M. Ramsey King Securities	236,951	197,954
Nomura International (Worldwide)	233,562	82,250
Stifel Nicolaus & Company (Worldwide)	194,319	117,916
Piper Jaffray, Inc.	176,070	125,691
Sanford Bernstein (Worldwide)	171,960	169,557
CL King & Associates, Inc.	153,098	161,310
Cantor Fitzgerald	142,510	128,026
Credit Lyonnais Securities (Worldwide)	141,868	116,000
Knight Securities, L.P.	138,868	125,122
Baird, Robert W., & Company, Incorporated	138,691	139,187
Raymond James (Worldwide)	137,458	138,065
RBC Dain Rauscher (Worldwide)	135,481	125,113
Oppenheimer & Company, Inc. (Worldwide)	128,526	124,991
Bloomberg Tradebook, L.L.C.	126,754	165,291
Credit Agricole	120,848	17,049
Wells Fargo (Worldwide)	103,286	0
Pulse Trading, L.L.C.	101,407	137,757
SG Cowen & Company (Worldwide)	99,865	123,536
Melvin Securities, L.L.C.	98,568	125,353
Thomas Weisel Partners, L.L.C.	98,153	97,755
Daiwa Securities	92,093	35,515
Keefe Bruyette & Woods, Inc.	88,327	73,518
Keybank Capital Markets	82,948	29,747
Suntrust Robinson Humphrey	79,772	78,666
Pacific Crest Securities	79,010	65,263
Guzman & Company	76,753	86,546
Williams Capital Group, L.P.	73,903	99,546
Citation Group	72,133	2,776
William Blair & Company	71,019	10,305
(All Others - 258 Brokers)	3,768,840	4,489,088
Total	<u>\$23,155,950</u>	<u>\$22,916,222</u>

Source: State Street Bank and Trust and TRS

External Manager Fee Payments

For the year ended June 30, 2010, fee payments to external investment managers totaled \$180.6 million, an increase of 13.5 percent from the year ended June 30, 2009. The rise is attributable to the increase in public funds asset values and the respective fees that are based on average asset values.

Schedule of Investment Manager Fees

Investment Manager/Account	FY10	FY09
21st Century Communication T-E Partners, L.P.	\$0	\$0
Aberdeen Asset Management, Inc.	1,989,881	1,568,764
Advent International GPE VI, L.P.	978,929	1,336,499
American Century Global Investment Management, Inc.	1,265,207	577,048
Analytic Investors, L.L.C.	2,129,975	2,029,793
Apex Investment Fund III, L.P.	0	6,351
Apex Investment Fund V, L.P.	376,002	444,375
Apollo Investment Fund V, L.P.	0	0
Apollo Investment Fund VI, L.P.	0	0
Apollo Investment Fund VII, L.P.	2,434,733	2,959,834
AQR Capital Management, L.L.C.	1,541,928	1,422,684
AQR Global Risk Premium Tactical Offshore Fund II, Ltd.	2,061,817	1,320,950
Avenue Europe Special Situations Fund, L.P.	557,843	460,240
Avenue Special Situations Fund V, L.P.	1,500,000	1,500,000
Banc Fund VI, L.P.	1,001,875	1,001,875
Banc Fund VII, L.P.	865,200	793,200
Batterymarch Financial Management, Inc.	0	423,785
Beacon Capital Partners V, L.P.	0	0
BlackRock, Inc.	711,721	1,083,517
Blackstone Real Estate Partners VI, L.P.	742,219	750,000
Boston Company Asset Management, L.L.C.	2,520,364	1,490,929
Brandes Investment Partners, L.P.	3,504,649	3,182,516
Bridgewater All Weather Portfolio Offshore Limited	1,787,315	1,547,758
Bridgewater Pure Alpha Fund I	7,204,655	2,743,678
Capri/Capital Advisors, L.L.C.	2,189,723	2,219,782
Capri/Capital Apartment Fund III	1,496,984	1,496,984
Capri Select Income II, L.L.C.	171,582	176,262
Carlyle Europe Real Estate Partners, L.P.	436,099	463,654
Carlyle Europe Real Estate Partners III, L.P.	1,162,718	1,207,375
Carlyle Partners IV, L.P.	584,960	583,146
Carlyle Partners V, L.P.	2,324,097	2,266,289
Carlyle Realty Partners IV, L.P.	890,346	879,141
Carlyle/Riverstone Global Energy Fund II, L.P.	584,219	686,791
Carlyle/Riverstone Global Energy Fund III, L.P.	712,979	638,516
Carlyle Strategic Partners, L.P.	140,160	306,283
Carlyle U.S. Growth Fund III, L.P.	1,000,000	1,000,000
Carlyle Ventures Capital II, L.P.	1,461,096	2,078,111
Castle Harlan Partners IV, L.P.	2,876	198,035
CB Richards Ellis Strategic Partners Europe Fund III	696,857	665,456
CB Richards Ellis Strategic Partners UK Fund III	452,674	519,098
Clearlake Capital Partners II, L.P.	485,005	306,692
Code Hennessy & Simmons V, L.P.	97,218	0
Commonwealth Realty Advisors, Inc.	0	3,981,517
Copper Rock Capital Partners, L.L.C.	1,206,170	841,135
Cornerstone Hotel Income & Equity Fund II, L.P.	138,722	115,942
Cornerstone Real Estate Advisors, L.L.C.	1,543,283	1,118,859
Cozad/Westchester Asset Management, Inc.	0	0
Cramer Rosenthal McGlynn, L.L.C.	902,144	258,856
Credo Capital Management, L.L.C.	171,090	11,763
Davis Hamilton Jackson & Associates, L.P.	3,367	0
Denali Advisors, L.L.C.	293,185	178,212
Dimensional Fund Advisors, L.P.	1,321,435	969,157
DLJ Merchant Banking Partners II, L.P.	23,860	142,893
DLJ Merchant Banking Partners III, L.P.	479,467	381,571
DLJ Real Estate Capital Partners, Inc.	0	0

Continued

Investment Manager/Account	FY10	FY09
Dodge & Cox	\$1,314,471	\$2,049,410
Dolan McEniry Capital Management, L.L.C.	470,531	379,428
EARNEST Partners, L.L.C.	1,152,749	440,568
Edgewater Growth Capital Partners, L.P.	274,846	28,869
Edgewater Growth Capital Partners II, L.P.	242,096	125,746
Elevation Partners, L.P.	375,000	344,560
Emerald Advisers, Inc.	1,200,609	1,090,079
Energy Capital Partners I, L.P.	646,544	723,968
Energy Capital Partners II, L.P.	630,502	0
Evercore Asset Management, L.L.C.	0	13,743
Evercore Capital Partners II, L.P.	215,322	225,177
Evergreen Partners IV, L.P.	445,089	376,659
Evergreen Partners V, L.P.	625,000	312,500
Fiduciary Management Associates, L.L.C.	295,631	252,719
Franklin Advisers, Inc.	1,872,069	1,253,125
Fred Alger Management, Inc.	895,507	808,927
Frontier Capital Management, L.L.C.	989,560	0
GI Partners	747,912	640,874
Glencoe Capital Partners III, L.P.	171,969	236,775
Glencoe Capital Institutional Partners III, L.P.	0	0
Goldman Sachs Asset Management, L.P.	1,529,539	1,419,386
Granite Ventures II, L.P.	500,000	500,000
Grantham, Mayo, Van Otterloo & Co., L.L.C.	6,542,346	4,968,639
Green Equity Investors V, L.P.	1,439,805	1,018,815
Gresham Investment Management Company, L.L.C.	412,856	140,495
Grosvenor Monarch Fund, L.L.C.	2,174,773	1,698,830
GTCR Fund VII/VIIA, L.P.	299,788	553,718
GTCR Fund VIII, L.P.	385,289	351,631
HealthPoint Partners, L.P.	471,894	566,528
Heitman Capital Management, L.L.C.	3,839,244	0
Hines U.S. Core Office Fund, L.P.	850,000	850,000
Hispania Private Equity, L.P.	139,475	174,907
Hopewell Ventures, L.P.	334,891	511,726
ICV Partners II, L.P.	250,330	245,897
Illinois Emerging Technologies Fund, L.P.	16,826	27,849
ING Investment Management Company	0	623,791
Invesco Institutional (N.A.), Inc.	1,195,606	1,203,067
Jarislowsky, Fraser Limited	803,525	745,541
JBC Opportunity Fund II, L.P.	333,580	368,839
J.C. Flowers II, L.P.	188,221	116,703
JER Real Estate Partners III, L.P.	387,040	577,675
JP Morgan Investment Management, Inc.	30,599	83,752
JP Morgan Management Associates, L.L.C.	3,691,120	3,023,572
K2 Bluegill Fund, L.L.C.	3,602,377	2,363,988
KKR 1996 Fund, L.P.	49,858	50,819
Koll Bren Schreiber Realty Advisors	1,379,008	1,338,813
Lasair Capital L.L.C.	230,017	0
LaSalle Asia Opportunity Fund III, L.P.	996,481	1,123,450
Lehman Brothers Asset Management, L.L.C.	0	166,138
Lehman Brothers Asset Management Offshore		
Strategic Commodities Fund, Ltd., sub adviser		
Gresham Investment Management Company, L.L.C.	0	327,371
Lion Industrial Trust	1,426,538	2,125,518
Littlejohn Fund IV, L.P.	252,434	0
LM Capital Group, L.L.C.	20,098	0

Continued

Investment Manager/Account	FY10	FY09
Lombardia Capital Partners, L.L.C.	\$311,517	\$114,274
Longitude Ventures Partners, L.P.	750,000	750,000
Loomis, Sayles & Company, L.P.	2,533,237	1,752,336
LPC Realty Advisors I, Ltd.	1,164,844	2,918,464
LSV Asset Management	2,019,214	2,225,245
MGPA Asia Fund III, L.P.	1,140,064	1,136,095
Madison Dearborn V, L.P.	493,820	1,047,446
Maranon Mezzanine Fund, L.P.	444,178	167,898
MatlinPatterson Global Opportunities Fund II, L.P.	0	222,990
MatlinPatterson Global Opportunities Fund III, L.P.	1,497,631	1,415,420
Mazama Capital Management, Inc.	1,351,606	1,926,457
MBK Partners	396,857	553,279
McKinley Capital Management, Inc.	2,345,934	3,585,487
Merit Mezzanine Fund IV, L.P.	862,331	942,319
Mesirow Capital Partners VII, L.P.	0	0
Mondrian Investment Partners Limited	1,883,660	1,905,022
New Century Advisors, L.L.C.	179,635	67,198
New Mountain Investments III, L.P.	1,475,272	1,398,065
OakBrook Investments, L.L.C.	46,744	0
Oaktree PPIP Private Fund, L.P.	19,270	0
OCM European Principal Opportunities Fund II, L.P.	1,089,768	0
OCM Opportunities Fund V, L.P.	32,599	36,607
OCM Opportunities Fund VIIb, L.P.	1,528,326	1,558,515
OCM Opportunities Fund VIII, L.P.	1,105,020	0
Onex Partners III, L.P.	404,595	487,432
Pacific Investment Management Company, L.L.C.	11,382,055	1,560,228
PAI Europe V, L.P.	790,519	983,155
Piedmont Investment Advisors, L.L.C.	197,501	44,184
PIMCO Private Funds II, L.P.	77,584	0
Pine Brook Capital Partners, L.P.	851,546	818,850
Prism Mezzanine Fund, L.P.	589,532	613,272
Providence Equity Partners VI, L.P.	1,478,605	677,176
Prudential Investment Management, Inc.	500,731	214,927
Putnam Advisory Company, L.L.C.	971,850	208,650
Quantitative Management Associates, L.L.C.	0	996,807
Ranger Investment Management	72,860	214,313
Reliant Equity Partners, L.P.	0	12,321
RhumbLine Advisers, L.P.	127,342	101,551
Riverstone/Carlyle Global Energy and Power Fund IV, L.P.	1,227,062	1,370,573
RLJ Lodging Fund II, L.P.	610,108	711,834
RLJ Lodging Fund III, L.P.	625,000	1,232,449
Robeco Boston Partners Asset Management, L.P.	967,568	954,549
Schroder Commodity Offshore Portfolio, L.L.P.	1,306,276	1,219,992
SCP Private Equity Partners, L.P.	0	0
SCP Private Equity Partners II, L.P.	935,599	570,338
Shasta Ventures, L.P.	0	0
Silver Lake Partners III, L.P.	1,052,524	1,183,865
StarVest Partners, L.P.	300,000	600,000
State Street Bank and Trust Company (Custody)	235,065	50,000
State Street Global Advisors	729,760	513,515
State Street Global Markets	0	0
Stone-Levy, L.L.C.	0	730,229
SW Pelham Fund II, L.P.	365,625	367,406
T. Rowe Price Associates, Inc.	3,500,373	3,458,011
Taplin, Canida & Habacht	604,525	597,432

Continued

Investment Manager/Account	FY10	FY09
TCW/Latin American Private Equity Partners, L.P.	\$0	\$0
Technology Crossover Ventures VII, L.P.	743,462	142,663
Thayer Equity Investors V, L.P.	395,470	368,883
Thayer Hotel IV, L.P.	90,988	143,157
The Northern Trust Company (Custody)	0	441,667
Thompson, Siegel & Walmsley, Inc.	1,290,579	1,443,768
TPG Partners IV, L.P.	0	0
TPG Partners VI, L.P.	1,408,193	1,608,214
Trilantic Capital Partners III, L.P.	295,136	294,431
Trilantic Capital Partners IV, L.P.	571,987	720,250
Trilogy Global Advisors, L.L.C.	1,142,673	997,862
Trivest Fund II, Ltd.	0	0
Turner Investment Partners, Inc.	2,082,745	1,979,053
Tygh Capital Management, Inc.	1,474,442	1,368,837
VantagePoint Venture Partners IV, L.P.	1,716,805	0
VantagePoint Venture Partners 2006, L.P.	969,388	3,637,351
Vicente Capital Partners Growth Equity Fund, L.P.	300,000	300,000
Vista Equity Partners III, L.P.	688,224	535,833
VS&A Communications Partners II, L.P.	0	0
VSS Communications Partners IV, L.P.	850,842	809,385
Walton Street Capital IV, L.L.C.	819,478	973,948
Walton Street Capital VI, L.L.C.	484,735	458,859
Warburg Pincus International Partners, L.P.	387,600	0
Warburg Pincus Private Equity IX, L.P.	1,081,036	0
Warburg Pincus Private Equity X, L.P.	3,748,177	6,255,634
Wellington Management Company, L.P.	1,134,716	1,103,552
Wellington Management Company - Diversified Inflation Hedges Portfolio, L.L.C.	4,458,075	3,161,042
Welsh, Carson, Anderson & Stowe Capital Partners IV, L.P.	484,631	238,634
Welsh, Carson, Anderson & Stowe Capital Partners X, L.P.	264,186	235,654
Western Asset Management Company	354,796	395,168
William Blair Mezzanine Capital Fund II, L.P.	0	41,910
William Blair Mezzanine Capital Fund III, L.P.	139,235	129,743
Wind Point Partners VI, L.P.	0	36,960
WPG Corporate Development Associates V, L.P.	10,682	38,369
WPG Enterprise Fund II, L.P.	56,151	106,420
WPG Enterprise Fund III, L.P.	135,727	133,292
Total fees paid by TRS	<u>\$180,641,485</u>	<u>\$159,222,616</u>

Note: This schedule captures investment manager fees applicable to the fiscal year(s) reported and differs from investment fees reported within the Financial Section.

Securities Lending

TRS participates in securities lending activity with its custodian, State Street Bank and Trust Company, acting as the securities lending agent. The Securities Lending Summary table outlines the net income from securities lending activity, the securities on loan, and the amount of collateral for these securities.

Securities Lending Summary

	Amount
FY10 net securities lending income	\$21,111,429
Total State Street collateral market value (6/30/10)	3,568,594,875
Total market value of securities on loan at State Street (6/30/10)	3,473,627,126
Total collateralized percentage	103%

Source: State Street Bank and Trust



Middle School teacher Nina of South Holland with DeNae.

A C T U A R I A L

December 6, 2010

Board of Trustees
Teachers' Retirement System
of the State of Illinois
2815 West Washington Street
Springfield, Illinois 62794

Subject: Pension Benefit Obligation as of June 30, 2010

Ladies & Gentlemen:

Based upon our annual actuarial valuation of the Teachers' Retirement System of the State of Illinois, we have determined the pension benefit obligation of the System to be \$77,293,198,000 as of June 30, 2010. The valuation was performed using the projected unit-credit actuarial cost method. Throughout the actuarial valuation report we reference the term Pension Benefit Obligation (PBO) when discussing the TRS actuarial accrued liability (AAL) because the TRS AAL is equivalent to the GASB Statement 5 PBO. Users of the TRS actuarial valuation report should consider the terms PBO and AAL to be equivalent and interchangeable.

The actuarial valuation was based on a census of retired members as of June 30, 2010, and a census of active and inactive members as of June 30, 2009, which were submitted to us by the System. While we did not verify the data at their source, we did perform tests for internal consistency and reasonability in relation to the data submitted for the previous valuation. In accordance with our normal procedures, we adjusted for the one-year lag in reporting of the active and terminated membership by assuming that the population was stationary with regard to age and service and by increasing reported payroll and member account balances by 4%. This increase is based on the increase in payroll from the prior year to the current year.

Presented in the Financial Section of the System's Annual Financial Report, there is a schedule of Required Supplementary Information. The actuary has provided the Unfunded Actuarial Accrued Liability, the Annual Required Contribution per State Statute, and the GASB Statement No. 25 Annual Required Contribution that appear in this section. The actuary reviewed the remainder of the figures that appear in the Required Supplementary Information to ensure their consistency with the valuation report.

The Actuarial Section of the Annual Financial Report also contains various schedules: Actuarial Valuation with Actuarial Value of Assets, Reconciliation of Unfunded Liability, State Funding Amounts, Funded Ratio Test, Unfunded Liability as a Percentage of Payroll Test and Solvency Test. While the actuary did not prepare these schedules, they are in agreement with the valuation report and their accuracy has been verified. The actuary neither reviewed nor prepared any items beyond those specifically listed in this paragraph and the preceding paragraph.

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312.846.3000 • 312.846.3999 (fax)

The amortization method established by PA 88-0593 – as amended by PA 90-0582, PA 93-0002, and PA 94-0004 – is used for funding purposes and does not meet the parameters of GASB Statement No. 25. The amortization method used is a 15-year phase-in to a level percent of payroll – before reduction for the maximum state contribution limitations of the Act – until a 90% funded ratio is achieved by June 30, 2045. PA 94-0004 interrupted the phase-in methodology by specifying the amount of the state's fiscal year 2006 and 2007 contributions, and the phase-in to level percent of payroll funding has resumed with the fiscal year 2008 contribution. At June 30, 2010 the remaining GASB amortization period is 30 years. The actuarial assumptions, actuarial cost method, and asset valuation method used for funding purposes do meet the parameters of GASB Statement No. 25.

The valuation is based on the benefit provisions of TRS in effect on June 30, 2010. The actuarial assumptions used in the valuation are those specified by the Board of Trustees of the System based on recommendations made by the actuary. The actuarial assumptions used for the June 30, 2010 actuarial valuation include additional assumptions for new hires who will be covered by PA 96-0889. These assumptions apply to the "Tier 2" members entering service on or after January 1, 2011. The assumptions for members in the "Tier 1" group who entered service before January 1, 2011 are unchanged. As required under PA 96-0043, the method for determining the actuarial value of assets used to determine the employer contribution rate was changed beginning with the June 30, 2009 valuation from market value to a smoothed value. The smoothed value recognizes actuarial investment gains or losses for each fiscal year in equal amounts over the ensuing five-year period. The System incurred a gain of \$1,257,176,000 in FY 2010. Per statutory requirement, 20% is recognized in the actuarial value of assets as of June 30, 2010, and recognition of the remaining 80%, or \$1,005,741,000, will be deferred and recognized in equal amounts over the next four valuations. Depending on whether the total net deferral is an investment gain or loss, the smoothing method will produce a contribution rate that is more or less than the rate based on the market value. As of the June 30, 2010 valuation the total net deferral is a \$6,115,308,000 loss, resulting in a contribution that is lower than it would be if the assets were valued at market.

The valuation was prepared under the supervision of Larry Langer in accordance with generally accepted actuarial principles and practice, and peer reviewed by Paul Wilkinson. To the best of our knowledge, it is complete and accurate. Mr. Langer and Mr. Wilkinson are members of the American Academy of Actuaries and meet the Academy's Qualification Standards to render the actuarial opinion contained herein.

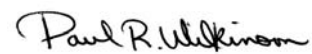
Sincerely,



Larry Langer
Principal, Consulting Actuary



Marco Ruffini
Senior Consultant, Retirement



Paul R. Wilkinson,
Director, Consulting Actuary

Actuaries estimate the cost of benefits members and survivors will receive over their lifetimes and calculate the amount that should be set aside each year to fund them.

TRS complies with the requirements issued by the Governmental Accounting Standards Board (GASB) under Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended by GASB Statement No. 50.

Actuarial Assumptions and Methods

Each year the actuary reconciles the differences between major actuarial assumptions and experience in the process of explaining the change in TRS's unfunded liability. The unfunded liability is the difference between the accrued liability (the present value of benefits including the cost of annual increases) and the assets that are available to cover the liability. Many of the assumptions below were revised in the 2007 actuarial experience analysis. Additional assumptions for new hires who will be covered by Public Act 96-0889 were adopted in the 2010 actuarial valuation. While the new hire ("Tier II") assumptions do not apply to current ("Tier I") participants, they were adopted in order to develop funding projections through FY45 as well as the FY12 state funding requirement.

Inflation: 3.5 percent per annum. Implicit in investment and earnings progression assumptions. Adopted in the FY02 valuation.

Investment return: 8.5 percent per annum, compounded annually. Adopted in the FY97 valuation. Components revised in FY02 valuation: inflation 3.5 percent, real return 5.0 percent, with overall 8.5 percent assumption retained.

Real wage growth (productivity): 1.2%. Adopted in the FY02 valuation. No change for Tier II.

Earnings progression: Merit and longevity increases, adjusted for inflation. Approximates 7.0 percent per year over a typical career. Adopted in the FY07 valuation. No change for Tier II.

Rates shown below include the inflation and real wage growth (productivity) assumptions.

Sample annual percentage salary increases:

Age	Male and Female
25	10.2%
30	8.4
40	7.2
50 and above	6.0

Retirement age: Graduated rates based on age and service of active members. Tier I rates adopted in the FY07 valuation. Tier II rates adopted in the FY10 valuation.

Sample annual retirement rates per 100 participants:

a) Tier I, for those entering service before January 1, 2011 (includes ERO retirees):

Age	Years of Service				
	5-18	19-30	31	32-33	34
54	-	7	12	38	40
55	-	12	20	38	40
60	14	27	45	45	37
65	23	33	45	45	30
70	100	100	100	100	100

b) Tier II, for those entering service on or after January 1, 2011:

Age	Years of Service				
	5-18	19-30	31	32-33	34
61	13	15	20	25	25
65	20	10	15	20	20
67	20	40	40	40	40
70	100	100	100	100	100

Utilization of ERO among Tier I members retiring from active service:

Years of Service on June 30 prior to Retirement	Age					
	54	55	56	57	58	59
19 – 30	63%	70%	69%	65%	63%	25%
31	72	72	71	71	71	38
32	66	68	68	67	66	45
33	66	68	68	67	66	45

Mortality: Rates for all groups adapted in the FY07 valuation. No change for Tier II.

For retirees, the 1995 Buck Mortality tables projected 16 years for males and one year for females as of June 30, 2007. For beneficiaries, projected one year for both males and females, then rated forward two years for males and forward one year for females as of June 30, 2007. Projected mortality improvements using Society of Actuaries Mortality Projection Scale AA are phased in over the four year period that began July 1, 2007.

Sample active member annual death rates in 2010 per 100 participants:

Age	Male	Female
25	0.057	0.013
30	0.059	0.017
40	0.082	0.041
50	0.152	0.100
55	0.240	0.153
60	0.473	0.234
65	0.951	0.486

Disability: Tier I rates adopted in the FY07 valuation. Tier II rates adopted in the FY10 valuation.

Sample annual disability rates per 100 participants:

Age	Tier I Members		Tier II Members	
	Male	Female	Male	Female
25	0.034	0.045	0.102	0.135
30	0.030	0.100	0.090	0.300
40	0.060	0.110	0.180	0.330
50	0.110	0.190	0.330	0.570
55	0.130	0.200	0.390	0.600
60	0.200	0.350	0.600	1.050
65	0.600	1.500	1.800	4.500

Termination from active service: Tier I rates adopted in FY07 valuation. Tier II rates adopted in FY10 valuation.

Sample annual termination rates per 100 participants:

Age	Tier I				Tier II			
	Nonvested Members		Vested Members		Nonvested Members		Vested Members	
	Male	Female	Male	Female	Male	Female	Male	Female
25	7.0	8.1	6.0	9.0	7.0	8.1	6.0	9.0
30	6.5	9.0	3.7	8.0	6.5	9.0	3.7	8.0
40	8.0	6.6	1.6	2.4	8.0	6.6	1.6	2.4
50	9.4	6.2	1.1	1.3	9.4	6.2	1.1	1.3
55	12.0	8.7	1.4	1.7	12.0	8.7	10.0	12.0
60	12.6	11.1	2.6	2.9	12.6	11.1	3.0	3.2
65	12.6	11.1	3.1	3.0	12.6	11.1	3.1	3.0

Severance pay: Increases with years of service at retirement, adjusted as described below table. Adopted in the FY07 valuation. Not applicable to Tier II.

Years of Service at Retirement	Percent Retiring with Severance Pay	Severance Pay as a Percent of Final Salary
10–20	41%	13.81%
20–24	52	13.24
25–29	58	14.29
30 or more	75	15.35

The percentages in the “percent retiring with severance pay” column above were multiplied by 33.3 percent in FY10 and will be multiplied by 10 percent for retirements assumed to occur in FY11 and later because the percent of members retiring with severance is expected to decrease.

Optional service at retirement: The accrued liability for retirement benefits for active members who have not previously purchased optional service is increased to cover the employer cost of optional service purchased in the last two years of service. Sample purchases at retirement follow. Adopted in the FY07 valuation. No change for Tier II.

Years of Regular Service at Retirement	Maximum Service Purchased
10	0.388 years
20	1.131 years
25	1.245 years
30	0.886 years
34 or more	None

Unused and uncompensated sick leave: Varies by the amount of regular service at retirement. Adopted in the FY07 valuation. No change for Tier II.

Sample amount of sick leave at retirement:

Years of Service at Retirement	Sick Leave Service Credit
20	1.080 years
25	1.224 years
30	1.277 years
34	1.000 years
35 or more	none

Actuarial cost method: Projected unit credit. Gains and losses are reflected in the unfunded liability. Adopted in the FY89 valuation.

Asset valuation method: Five-year prospective asset smoothing was adopted in the FY09 valuation as required by Public Act 96-0043.

Annual Actuarial Valuation

The annual actuarial valuation measures the total liability for all benefits earned to date. The accrued liability is a present value estimate of all the benefits that have been earned to date but not yet paid. The unfunded liability is the present value of future benefits payable that are not covered by the actuarial value of assets on the valuation date.

The **funded ratio** shows the percentage of the accrued liability covered by actuarial value of assets.

Actuarial Valuation (\$ thousands)

	Years Ended June 30	
	2010	2009
Total actuarial accrued liability	\$77,293,198	\$73,027,198
Less actuarial value of assets*	<u>37,439,092</u>	<u>38,026,044</u>
Unfunded liability	\$39,854,106	\$35,001,154
Funded ratio*	48.4%	52.1%

* Five-year prospective smoothing began in FY09.

Analysis of Financial Experience: Reconciliation of Unfunded Liability

The net increase in the June 30, 2010, unfunded liability of \$4.9 billion was caused by a combination of factors.

The **employer cost in excess of contributions** is the shortfall between actual employer contributions and the amount needed to cover the cost of benefits earned during the year and to keep the unfunded liability from growing. In 2010, this shortfall was \$1.6 billion and in 2009 it was \$1.8 billion.

In 2009, a statutorily-required **change in asset valuation methods** reduced the reported unfunded liability by \$9.5 billion. Public Act 96-0043 required actuarial gains or losses to be smoothed over a five-year period that began with the year ended June 30, 2009, meaning that only 20 percent of the 2009 actuarial loss on investments would be recognized in 2009. The \$9.5 billion in the 2009 column is the remaining 80 percent of the loss to be recognized in the four following years.

TRS experienced actuarial gains under the **salary increase** assumption in both FY10 and FY09. Salary increases for continuing active members were \$210 million lower than expected in 2010 and \$29 million lower than expected in 2009. Under the **investment return** assumption, losses occurred both years. In FY10, smoothed assets were assumed to earn \$3.2 billion, but earnings were actually \$0.3 billion. The actuarial loss due to investments was \$2.9 billion in FY10, compared to a loss of \$11.9 billion in FY09.

In both years, actuarial losses occurred under the **mortality** assumptions because fewer people died than expected. Actuarial losses were also incurred under the turnover assumption because fewer people left service than assumed. Additionally, many members repaid refunds, and the repurchased service increased the unfunded liability. **Delayed reporting** of retirements also increased the unfunded liability because more people were receiving benefits than expected.

Other, which is a balancing item, reflects actuarial losses in both 2010 and 2009. “Other” includes the effect of either more or fewer retirements than expected, retirements that were reported late to the actuary, and several other factors.

Reconciliation of Unfunded Liability (\$ thousands)

	Years Ended June 30	
	2010	2009
Unfunded liability at beginning of year	\$35,001,154	\$30,201,644
Additions (deductions)		
Employer cost in excess of contributions	1,572,252	1,782,855
Change in actuarial assumptions effective 6/30/09, asset valuation method changes to five-year smoothing	-	(9,494,731)
Net additions (deductions)	1,572,252	(7,711,876)
Actuarial losses (gains)		
Salary increases for continuing active members	(210,215)	(29,162)
Investment return	2,929,300	11,868,414
New entrant loss	26,484	30,694
Mortality other than expected	40,736	40,644
Fewer terminations than expected	42,044	35,951
Repayments of refunded member contributions ¹	27,030	30,441
Delayed reporting of retirements (effect on assets) ²	10,974	11,508
Other	414,347	522,896
Net actuarial losses	3,280,700	12,511,386
Unfunded liability at end of year	\$39,854,106	\$35,001,154

1 Includes the employer-paid portion of the benefit that was restored when members repaid previously refunded contributions.

2 461 retirements which occurred prior to 7/1/08 were not reported to the actuary until 6/30/09.

460 retirements which occurred prior to 7/1/09 were not reported to the actuary until 6/30/10.

State Funding

Public Act 88-0593 was enacted in 1994 and first affected state contributions in FY96. The law established a 50-year funding plan that includes a 15-year phase-in period. Contributions were gradually increased to a percentage level of active member payroll during the phase-in period, with the exceptions noted below. By the end of the funding period in FY45, TRS will have a 90 percent funded ratio. A key feature of this act is the “continuing appropriation” language that requires state contributions to be made automatically to TRS, provided state funds are available.

Public Act 90-0582, the 2.2 legislation, was enacted in 1998 and first affected state contributions in FY99. The act established minimum state contribution rates so that the state’s cost of the formula change would be paid as a level percent of pay instead of being phased in. Those minimum state contribution rates were in effect from FY99 through FY04.

Public Act 93-0002, the pension obligation bond (POB) legislation, was enacted in 2003 and first affected state contributions in FY05. Of the total \$10 billion in POB proceeds, \$523 million was used to cover initial interest payments and to fund bond issuance and other costs. The next \$2.160 billion was used to reimburse the state for contributions it made to the five state retirement systems for some of FY03 and all of FY04. The remaining \$7.317 billion was allocated among the systems to invest and to reduce their unfunded liabilities. The allocation was based on the relative sizes of the systems’ June 30, 2002, unfunded liabilities. The TRS share of the proceeds, \$4.330 billion, was deposited on July 2, 2003.

The FY05 state contribution to TRS was reduced by the system's share of the POB debt service. The calculation was performed through a multi-step process that ensured that state contributions did not exceed certain maximums provided in the act.

Public Act 94-0004 specified certain dollar contributions to TRS for FY06 and FY07 and were not based on actuarial calculations. State contributions in FY08 and FY09 are based on the statutory schedule, with the continuing appropriation provisions being used to reach the certified funding amount in FY09. In FY10, the end of the 15-year ramp period, state contributions reached a level percentage of pay, with part of the state contribution paid in pension notes authorized for sale under Public Act 96-0043. The FY10 rate is to be maintained for the following 35 years, subject to state maximum contributions, until the 90 percent funded ratio is achieved in FY45.

State Funding Amounts

The FY10 actuarial valuation was used to determine the required FY12 state contributions and the FY12 employer's normal cost. For FY12, two amounts were certified because it is not clear whether the full FY11 certified contribution will be received. The FY09 actuarial valuation was used to determine the required FY11 state contributions and the FY11 employer's normal cost.

State Funding Amounts

	FY12		FY11
	Assuming \$110,000,000 of the FY11 Certified Amount is Received	Assuming FY11 Certified Amount is Received	Certified Amount
Benefit Trust Reserve (excludes federal contributions; excludes school district contributions)	\$2,553,318,000	\$2,405,172,000	\$2,357,041,000
Minimum benefit reserve	1,300,000	1,300,000	1,400,000
Total state funding amount	<u>\$2,554,618,000</u>	<u>\$2,406,472,000</u>	<u>\$2,358,441,000</u>
Employer's normal cost as a percentage of active member payroll	8.43%	8.43%	8.77%

Tests of Financial Condition

The **funded ratio** shows the percentage of the accrued liability covered by actuarial value of assets.

Funded Ratio Test (\$ thousands)

As of June 30	Actuarial Value of Assets*	Actuarial Accrued Liability	Funded Ratio*
2001	\$23,315,646	\$39,166,697	59.5%
2002	22,366,285	43,047,674	52.0
2003	23,124,823	46,933,432	49.3
2004	31,544,729	50,947,451	61.9
2005	34,085,218	56,075,029	60.8
2006	36,584,889	58,996,913	62.0
2007	41,909,318	65,648,395	63.8
2008	38,430,723	68,632,367	56.0
2009	38,026,044	73,027,198	52.1
2010	37,439,092	77,293,198	48.4

* Market value through FY08. Five-year prospective smoothing began in FY09.

The **unfunded liability as a percentage of payroll** is a standard measure of the relative size of the unfunded liability. Decreases in this percentage indicate improvements in a system's financial position.

Unfunded Liability as a Percentage of Payroll Test (\$ thousands)

Year Ended June 30	Approximate Member Payroll	Unfunded Liability*	Percentage of Payroll
2001	\$6,431,000	\$15,851,051	246.5%
2002	6,785,000	20,681,389	304.8
2003	7,059,000	23,808,609	337.3
2004	7,281,000	19,402,722	266.5
2005	7,550,510	21,989,811	291.2
2006	7,765,752	22,412,024	288.6
2007	8,149,849	23,739,077	291.3
2008	8,521,717	30,201,644	354.4
2009	8,945,021	35,001,154	391.3
2010	9,251,139	39,854,106	430.8

* Market value through FY08. Five-year prospective smoothing began in FY09.

The **solvency test** measures TRS's ability to cover different types of obligations if the plan was terminated and is hypothetical. The columns are in the order that assets would be used to cover certain types of obligations. Employee contributions would be refunded first, amounts due for current beneficiaries would be covered next, and the employer's obligation for active members would be covered last. Columns 1 and 2 should be fully covered by assets. The portion of column 3 that is covered by assets should increase over time. TRS last passed the minimum standards of the solvency test in 2001.

Solvency Test (\$ thousands)

Aggregate Accrued Liabilities for							
Year Ended June 30	Members' Accumulated Contributions	Participants Currently Receiving Benefits	Active Members Employer Portion	Actuarial Value of Assets*	Percentage of Benefits Covered by Net Assets		
	(1)	(2)	(3)		(1)	(2)	(3)
2001	\$4,386,648	\$18,718,472	\$16,061,577	\$23,315,646	100%	100%	1%
2002	4,688,042	22,105,192	16,254,440	22,366,285	100	80	-
2003	5,622,026	25,188,870	16,122,536	23,124,823	100	69	-
2004	5,853,274	28,286,916	16,807,261	31,544,729	100	91	-
2005	5,925,696	32,861,473	17,287,860	34,085,218	100	86	-
2006	6,303,750	35,315,529	17,377,634	36,584,889	100	86	-
2007	6,500,318	39,785,368	19,362,709	41,909,318	100	89	-
2008	6,931,518	41,849,964	19,850,885	38,430,723	100	75	-
2009	7,320,600	44,495,917	21,210,681	38,026,044	100	69	-
2010	7,715,984	47,475,906	22,101,308	37,439,092	100	63	-

* Market value through FY08. Five-year prospective smoothing began in FY09.

Other Information

Retirees and Beneficiaries Added to and Removed from Rolls

Year Ended June 30	Number at Beginning of Year	Number Added to Rolls	Number Removed from Rolls	Number at End of Year	End-of-Year Annual Allowances		Average Annual Allowance	
					Amount	% Increase	Amount	% Increase
2001	62,122	5,197	2,442	64,877	\$1,643,900,223	12.8%	\$25,339	8.0%
2002	64,877	5,391	2,319	67,949	1,852,194,540	12.7	27,259	7.6
2003*	67,949	9,404	3,922	73,431	2,181,186,831	17.8	29,704	9.0
2004	73,431	6,016	2,542	76,905	2,432,132,334	11.5	31,625	6.5
2005	76,905	7,897	2,227	82,575	2,806,341,054	15.4	33,985	7.5
2006	82,575	5,147	2,619	85,103	3,018,848,450	7.6	35,473	4.4
2007	85,103	6,473	2,340	89,236	3,344,714,652	10.8	37,482	5.7
2008	89,236	4,912	2,686	91,462	3,551,117,836	6.2	38,826	3.6
2009	91,462	5,520	2,558	94,424	3,815,292,869	7.4	40,406	4.1
2010	94,424	5,711	2,381	97,754	4,109,018,971	7.7	42,034	4.0

* In the year ended June 30, 2003, statistical programs were revised and improved. This resulted in a much larger number reported as added to the rolls.

	Amount Added to Rolls**		Amount Removed from Rolls
	Annual Benefit Increases	New Benefit Recipients	
2007	\$81,629,966	\$295,571,869	\$51,335,633
2008	93,731,561	174,119,867	61,448,244
2009	108,144,294	219,175,023	63,144,284
2010	114,879,927	247,234,501	68,388,326

** Amounts added to and removed from rolls are available beginning with the year ended June 30, 2007.

Average Annual Salary for Active Members by Years of Service

Years of Service*		2010	2009	2008	2007
under 5	Number	33,487	37,293	42,725	41,244
	Average salary	\$46,324	\$45,464	\$44,916	\$43,446
5-9	Number	34,529	33,494	31,959	30,520
	Average salary	\$57,105	\$55,945	\$55,436	\$53,062
10-14	Number	25,051	23,133	21,395	20,469
	Average salary	\$66,788	\$65,168	\$64,705	\$62,447
15-19	Number	17,790	17,417	14,753	14,422
	Average salary	\$76,001	\$73,770	\$71,802	\$69,368
20-24	Number	11,391	11,084	10,447	9,814
	Average salary	\$82,184	\$79,805	\$78,080	\$74,894
25-29	Number	7,786	7,790	8,654	9,484
	Average salary	\$86,566	\$84,282	\$82,013	\$78,831
30-34	Number	6,554	6,858	5,763	5,301
	Average salary	\$91,077	\$87,973	\$85,738	\$82,508
35 +	Number	1,251	1,265	790	694
	Average salary	\$95,486	\$90,698	\$88,478	\$84,065
Total number		137,839	138,334	136,486	131,948
Average salary		\$64,385	\$62,319	\$60,254	\$58,116
% Change average salary		3.3%	3.4%	3.7%	2.1%
Total payroll full & part-time		\$8,874,727,268	\$8,620,836,546	\$8,223,827,444	\$7,668,289,968

Annual salaries are computed using full- and part-time salary rates only; substitute and hourly employee salaries are omitted.

Total payroll shown will be lower than payroll figures used elsewhere in this report.

* From FY01-FY08, years of service increments were as follows: 0-5, 6-10, 11-15, 16-20, 21-25, 26-30, 31-35, and 35+. However, figures for those years are not restated because the differences would be minor.

2006	2005	2004	2003	2002	2001
40,930 \$42,404	39,728 \$41,444	36,951 \$37,633	38,074 \$37,960	41,120 \$36,242	38,585 \$34,614
28,847 \$51,314	26,557 \$49,536	26,027 \$45,568	25,020 \$46,740	24,258 \$45,300	24,351 \$43,457
20,222 \$60,476	20,295 \$58,195	18,307 \$52,771	17,334 \$53,931	16,812 \$52,761	16,367 \$50,875
14,086 \$67,343	13,429 \$65,276	13,358 \$59,820	12,860 \$60,788	12,215 \$59,011	11,692 \$56,521
9,619 \$72,531	9,431 \$70,278	10,868 \$64,881	11,152 \$65,427	12,575 \$63,599	13,091 \$61,188
10,349 \$76,616	10,667 \$74,127	12,488 \$69,276	12,429 \$70,066	13,256 \$68,501	13,885 \$65,913
6,134 \$83,165	5,900 \$79,236	9,186 \$75,643	7,107 \$76,676	7,484 \$76,413	7,555 \$73,433
785 \$84,524	744 \$81,497	1,162 \$77,805	804 \$78,091	843 \$78,831	809 \$75,469
130,972 \$56,916	126,751 \$55,237	128,347 \$52,181	124,780 \$52,408	128,563 \$50,895	126,335 \$49,230
3.0% \$7,454,402,352	5.9% \$7,001,344,987	(0.4%) \$6,697,274,807	3.0% \$6,539,470,240	3.4% \$6,543,213,885	3.3% \$6,219,472,050

Active Members by Age and Years of Service as of June 30, 2010

Age		Subs	Years of Service			
			under 5	5-9	10-14	15-19
20-24	Number	4,032	4,107	-	-	-
	Average salary	\$4,317	\$39,542	-	-	-
25-29	Number	5,266	14,659	6,500	-	-
	Average salary	\$4,795	\$45,080	\$53,040	-	-
30-34	Number	2,737	5,371	12,558	4,130	-
	Average salary	\$4,509	\$48,215	\$56,914	\$64,820	-
35-39	Number	2,945	2,865	5,091	8,640	2,591
	Average salary	\$4,386	\$48,937	\$58,546	\$67,591	\$74,789
40-44	Number	4,282	2,547	3,376	3,988	5,939
	Average salary	\$4,214	\$48,336	\$58,503	\$67,768	\$77,180
45-49	Number	3,959	1,730	2,744	2,597	2,731
	Average salary	\$4,653	\$49,077	\$58,167	\$66,015	\$77,411
50-54	Number	3,246	1,187	2,257	2,502	2,492
	Average salary	\$4,857	\$50,689	\$58,239	\$65,851	\$74,434
55-59	Number	2,881	685	1,394	2,238	2,711
	Average salary	\$4,955	\$57,873	\$60,849	\$66,358	\$74,791
60-64	Number	1,907	286	528	832	1,155
	Average salary	\$4,680	\$63,330	\$67,448	\$68,948	\$75,277
65-69	Number	783	45	72	108	156
	Average salary	\$4,153	\$60,369	\$65,784	\$75,032	\$77,594
70-74	Number	258	3	8	12	14
	Average salary	\$3,791	\$46,878	\$54,715	\$60,980	\$83,323
74 +	Number	140	2	1	4	1
	Average salary	\$3,449	\$25,333	\$57,069	\$60,253	\$31,770
Total number		32,436	33,487	34,529	25,051	17,790
Average salary		\$4,565	\$46,324	\$57,105	\$66,788	\$76,001

Years of Service							Full and Part-time Member Totals
20-24	25-29	30-34	35-39	40-44	45-49	50+	
-	-	-	-	-	-	-	4,107
-	-	-	-	-	-	-	\$39,542
-	-	-	-	-	-	-	21,159
-	-	-	-	-	-	-	\$47,525
-	-	-	-	-	-	-	22,059
-	-	-	-	-	-	-	\$56,276
-	-	-	-	-	-	-	19,187
-	-	-	-	-	-	-	\$63,378
1,630	-	-	-	-	-	-	17,480
\$81,988	-	-	-	-	-	-	\$67,671
3,825	1,420	-	-	-	-	-	15,047
\$83,359	\$86,082	-	-	-	-	-	\$71,008
2,355	3,338	2,395	1	-	-	-	16,527
\$81,504	\$86,215	\$89,397	\$116,147	-	-	-	\$74,775
2,457	2,173	3,530	602	-	-	-	15,790
\$80,680	\$87,401	\$92,459	\$94,468	-	-	-	\$78,983
999	776	555	399	113	-	-	5,643
\$83,474	\$86,501	\$89,852	\$96,273	\$96,326	-	-	\$79,340
117	72	67	34	56	15	-	742
\$81,537	\$88,539	\$88,339	\$95,521	\$96,431	\$87,672	-	\$80,131
5	5	7	5	10	4	4	77
\$77,764	\$83,187	\$91,744	\$84,748	\$101,290	\$101,711	\$159,704	\$83,194
3	2	-	-	1	3	4	21
\$58,419	\$70,292	-	-	\$90,598	\$96,164	\$86,356	\$67,661
11,391	7,786	6,554	1,041	180	22	8	137,839
\$82,184	\$86,566	\$91,077	\$95,168	\$96,603	\$91,382	\$123,030	\$64,385

	Average Age	Average Years of Service	Number
Full and part-time members	42	12	137,839
Substitutes	41	3	32,436
All	42	10	<u>170,275</u>

Plan Summary

Administration

TRS was created and is governed by Article 16 of the Illinois Pension Code, contained in the Illinois Compiled Statutes (ILCS). A 13-member Board of Trustees is authorized to carry out duties granted to it under the article.

Membership

Membership is mandatory for all full-time, part-time, and substitute public school personnel employed outside the city of Chicago in positions requiring certification. Persons employed at certain state agencies are also members.

Contributions

During FY10, members contributed 9.4 percent of gross creditable earnings designated as 7.5 percent for retirement annuity, 0.5 percent for post-retirement increases, 0.4 percent for the Early Retirement Option, and 1 percent for death benefits. Active members do not contribute to Social Security for TRS-covered employment; however, members hired after March 31, 1986, are required to contribute to Medicare. In addition, virtually all members pay a contribution to the Teachers' Health Insurance Security Fund, a separate fund in the State Treasury that is not a part of this retirement plan. For FY10, the member contribution was 0.84 percent of pay.

Service Credit

A member is granted a maximum of one year of service credit for 170 paid days per school year, defined by statute as July 1 through June 30. Optional service credit is available for periods of public school teaching in other states or under the authority of the United States government, substitute or part-time teaching prior to July 1, 1990, leaves of absence, involuntary layoffs, military service, and gaps in teaching due to pregnancy or adoption prior to July 1, 1983. Up to two years of unused, uncompensated sick leave that has been certified by former employers may also be added as service credit at retirement.

A payroll deduction program became effective July 1, 1998 and ended June 30, 2010. Active and certain inactive members could make tax-sheltered contributions to TRS to purchase various types of optional service, to upgrade their service under the graduated retirement formula to the 2.2 formula, or to make the required contributions under the Early Retirement Option. Members were allowed to join the program until May 15, 2008. The program was phased out to comply with guidance from the Internal Revenue Service.

Refunds

After a four-month waiting period from the date last taught, a member ceasing TRS-covered employment may withdraw all contributions, except the 1 percent death benefit. When accepting a refund, the member forfeits all service credit and benefit rights. Credit can be re-established if the member returns to a TRS-covered position for one year or to a reciprocal system for two years and repays the refund with interest. A member receiving disability benefits is not eligible for a refund.

Retirement Benefits

The following vesting schedule applies to all members hired before January 1, 2011.

Years of Service	Age
5	62
10	60
20	55 (discounted)
35	55 (nondiscounted)

To be eligible to receive a monthly retirement annuity, a member must terminate active service and meet specific age and service requirements. If a member retires at an age less than 60 with fewer than 35 years of service and does not elect the Early Retirement Option (discussed under “Early Retirement”), the benefit will be reduced by 6 percent for each year the member is under age 60.

A member with fewer than five years of creditable service who taught after July 1, 1947, is eligible to receive a single-sum retirement benefit at age 65.

Most members retire under a retirement benefit formula. This retirement annuity is determined by two factors: average salary and years of creditable service. Average salary is the average of the creditable earnings in the highest four consecutive years within the last 10 years of creditable service. Years of service determine the percentage of the final average salary to which members are entitled. Members with contributing service before July 1, 2005, can retire under a money purchase style “actuarial” benefit instead of a retirement benefit formula. By law, the higher of the formula benefit or the actuarial benefit is paid. The maximum formula benefit is 75 percent of the final average salary; there is no maximum for the actuarial benefit.

Public Act 90-0582 improved retirement benefits for TRS members by changing the rate at which TRS benefits accrue beginning July 1, 1998, from a graduated rate to a flat rate equal to 2.2 percent of final average salary. Members who retire on or after the effective date have the option of upgrading their service earned prior to July 1, 1998, to the flat-rate 2.2 percent formula by making a payment to TRS. Additionally, for members who continue to teach, every three full years worked after July 1, 1998, count toward a full one-year reduction of the years to be upgraded.

Public Act 91-0017 reduced the 2.2 formula upgrade cost on a sliding scale for members who have more than 34 years of service credit. The legislation also made a technical correction in the benefit accrual rate for members who do not upgrade their pre-July 1998 service.

Years of service earned before July 1, 1998, were earned under a four-step graduated formula:

- 1.67 percent for each of years one through 10,
- 1.9 percent for each of years 11 through 20,
- 2.1 percent for each of years 21 through 30, and
- 2.3 percent for each year over 30.

The maximum annuity, 75 percent of final average salary, is achieved with 34 years under the 2.2 formula and with 38 years of service under the graduated formula. The minimum retirement benefit is \$25 per month for each year of creditable service up to 30 years of service.

Early Retirement

Members who are age 55 but under age 60 who have at least 20 but fewer than 35 years of service can elect the Early Retirement Option (ERO) to avoid a discounted annuity. Both the member and employer make one-time contributions at retirement. Under the terms of the ERO program described in Public Act 94-0004, the member pays 11.5 percent for each year that his or her age is under 60 or years of service is under 35, whichever is less. The employer pays 23.5 percent for each year the member is under age 60.

Post-Retirement Increase

Annuitants who meet certain service credit criteria receive an annual 3 percent increase in their gross annuities on the January 1 after they turn age 61 or the January 1 following the first anniversary in retirement, whichever is later.

Disability Benefits

TRS offers occupational and nonoccupational disability benefits to active members. Nonoccupational disability benefits are payable as disability benefits or as a disability retirement annuity to members who have a minimum of three years of creditable service. There is no minimum service requirement for occupational disability benefits for duty-related accidents or illnesses. Members continue to accrue service credit while they are receiving disability benefits but not while they are receiving disability retirement annuities. On January 1 following the fourth anniversary of the granting of the disability benefit, the monthly benefit is increased 7 percent. Thereafter, the benefit increases by 3 percent each January 1.

Public Act 94-0539 allows individuals who have received TRS disability benefits for one year or more to return to teaching if their medical conditions improve, allowing part-time work. It allows members on a limited basis to tutor, substitute, or teach part-time for a TRS-covered employer without loss of disability benefits as long as the combined earnings from teaching and disability benefits do not exceed 100 percent of the salary rate upon which the disability benefit was based.

Death Benefits

There are two types of death benefits: a return of the member's accumulated contributions and survivor benefits.

The return of member contributions includes the retirement contributions (6.5 percent of salary through June 30, 1998 and 7.5 percent after that date), with interest, as well as 0.5 percent paid toward annual increases in annuity, and 0.4 percent paid for the Early Retirement Option. Beneficiaries of an annuitant receive the accumulated contributions minus the amount that the member had already received as a retirement annuity.

Survivor benefits can be paid in either a lump-sum or a monthly payment. A lump-sum benefit is the only method payable to nondependent beneficiaries. A dependent beneficiary may choose either a lump-sum benefit or a monthly payment. Survivor benefit recipients who are beneficiaries of a retired member are eligible for an annual 3 percent increase effective January 1 following the granting of the survivor benefit. Survivor benefit recipients who are beneficiaries of an active or eligible inactive member are eligible for an annual 3 percent increase on January 1 following the first anniversary of their receiving the survivor benefit.

Employment-Related Felony Conviction

Any member convicted of a felony related to or in connection with teaching is not eligible for TRS benefits; however, the member may receive a refund of contributions.

Continuity of Credit within Illinois

TRS is one of 13 public retirement systems that are included in the provisions of the Illinois Retirement Systems' Reciprocal Act. This act ensures continuous pension credit for public employment in Illinois.

Conflicts

Conditions involving a claim for benefits may require further clarification. If conflicts arise between material in this summary and that of the law, the law takes precedence.



History teacher Bryant of Springfield with Noah.

S T A T I S T I C A L

Statistical Section

The tables in this section present detailed information on benefit payments and recipients, member and employer contributions, employer contribution rates, and the largest TRS employers.

Section Contents

Retired Members by Years of Service and Years in Retirement – Pages 104-105

This schedule shows the number of retirees by their years of service and years in retirement in five-year increments. It also shows their average current monthly benefits and average benefits when they first retired. A column on the right shows the average age of retirees in each “years retired” increment.

10-Year Financial Trends – Pages 106-107

These schedules contain information that allows the reader to view the change in net assets and benefit and refund deductions from net assets over a 10-year period. Both schedules help the reader understand the financial changes that have occurred over time.

Employee and Employer Contribution Rates – Page 109

This schedule offers information on the contribution rates for employees, the state, and employers to the system over a 10-year period.

Demographics of Benefit Recipients – Pages 110-111

These schedules help the reader understand the specific groups of benefit recipients and active members of the Teachers' Retirement System.

Average Benefit Payments – Pages 112-113

This schedule contains information regarding the average benefits paid to new retirees over a 10-year period. The schedule also allows the reader to view those payments by years of service.

Participating Employers – Page 114

This schedule allows the reader to view the 10 largest participating employers of the Teachers' Retirement System. The reader can also view the percentages of total membership covered by the largest employers in the current year and nine years ago.

Retired Members by Years of Service and Years in Retirement as of June 30, 2010

Years Retired		Years of Service				
		Under 5	5-9	10-14	15-19	20-24
Under 1	Number	143	311	303	335	495
	Average current benefit	\$280	\$669	\$1,227	\$2,122	\$2,950
	Average original benefit	\$280	\$669	\$1,227	\$2,121	\$2,947
1-4	Number	760	1,207	1,132	1,169	1,930
	Average current benefit	\$263	\$654	\$1,225	\$2,042	\$2,865
	Average original benefit	\$249	\$617	\$1,151	\$1,930	\$2,753
5-9	Number	877	1,038	1,084	1,006	2,283
	Average current benefit	\$249	\$629	\$1,195	\$1,975	\$2,752
	Average original benefit	\$204	\$518	\$989	\$1,638	\$2,320
10-14	Number	631	649	505	457	1,120
	Average current benefit	\$284	\$636	\$1,014	\$1,735	\$2,491
	Average original benefit	\$204	\$449	\$721	\$1,247	\$1,808
15-19	Number	365	460	496	454	915
	Average current benefit	\$237	\$616	\$978	\$1,300	\$1,917
	Average original benefit	\$145	\$373	\$585	\$777	\$1,147
20-24	Number	182	372	453	495	1,335
	Average current benefit	\$208	\$491	\$856	\$1,357	\$1,921
	Average original benefit	\$108	\$243	\$441	\$707	\$1,024
25-29	Number	74	166	318	382	898
	Average current benefit	\$184	\$387	\$743	\$1,149	\$1,581
	Average original benefit	\$84	\$154	\$322	\$519	\$727
30-34	Number	25	44	134	182	460
	Average current benefit	\$165	\$314	\$597	\$918	\$1,166
	Average original benefit	\$62	\$93	\$212	\$355	\$459
35-39	Number	9	11	20	38	137
	Average current benefit	\$41	\$208	\$537	\$865	\$976
	Average original benefit	\$3	\$58	\$154	\$278	\$312
40-44	Number	-	-	1	-	31
	Average current benefit	-	-	\$471	-	\$846
	Average original benefit	-	-	\$39	-	\$179
45-49	Number	-	-	-	-	6
	Average current benefit	-	-	-	-	\$859
	Average original benefit	-	-	-	-	\$126
50 +	Number	-	-	-	-	-
	Average current benefit	-	-	-	-	-
	Average original benefit	-	-	-	-	-
Total number		3,066	4,258	4,446	4,518	9,610
Avg. current benefit		\$254	\$613	\$1,072	\$1,722	\$2,341
Avg. original benefit		\$201	\$487	\$840	\$1,363	\$1,813

Years of Service						Average	Average Age
25-29	30-34	35-39	40-44	45-49	50 +		
535	883	1,410	97	21	-	4,533	60
\$3,902	\$5,073	\$5,621	\$5,642	\$6,637	-	\$3,964	
\$3,893	\$5,065	\$5,621	\$5,642	\$6,637	-	\$3,961	
1,954	5,078	4,260	278	41	6	17,815	62
\$3,885	\$5,123	\$5,512	\$6,186	\$6,601	\$9,895	\$3,897	
\$3,719	\$4,991	\$5,384	\$5,780	\$6,217	\$9,512	\$3,776	
2,782	11,872	4,545	309	51	7	25,854	65
\$3,906	\$5,302	\$5,862	\$5,831	\$6,342	\$6,812	\$4,373	
\$3,294	\$4,528	\$4,909	\$4,826	\$5,258	\$5,598	\$3,704	
1,253	2,716	2,091	280	26	3	9,731	70
\$3,621	\$5,067	\$5,654	\$5,835	\$5,765	\$6,277	\$3,762	
\$2,635	\$3,751	\$4,099	\$4,065	\$4,131	\$4,620	\$2,744	
1,490	2,301	4,185	5,450	14	3	16,133	74
\$2,477	\$3,270	\$4,300	\$4,809	\$4,639	\$3,866	\$3,638	
\$1,507	\$2,002	\$2,661	\$3,016	\$2,817	\$2,313	\$2,256	
1,199	1,531	1,236	80	9	-	6,892	81
\$2,614	\$3,661	\$4,537	\$4,670	\$4,048	-	\$2,699	
\$1,394	\$1,958	\$2,423	\$2,521	\$2,136	-	\$1,438	
800	893	666	58	7	1	4,263	86
\$2,200	\$3,057	\$3,888	\$3,707	\$3,579	\$3,490	\$2,227	
\$1,024	\$1,425	\$1,834	\$1,716	\$1,663	\$1,607	\$1,035	
367	301	258	39	5	-	1,815	91
\$1,578	\$2,142	\$2,582	\$2,733	\$2,560	-	\$1,549	
\$638	\$883	\$1,053	\$1,105	\$1,040	-	\$622	
106	77	117	24	4	-	543	96
\$1,243	\$1,576	\$2,308	\$2,270	\$2,689	-	\$1,415	
\$410	\$546	\$829	\$801	\$964	-	\$484	
10	14	3	3	-	-	62	99
\$1,097	\$1,231	\$1,393	\$1,904	-	-	\$1,045	
\$255	\$319	\$344	\$591	-	-	\$249	
5	1	-	-	-	-	12	102
\$1,075	\$1,168	-	-	-	-	\$975	
\$173	\$249	-	-	-	-	\$156	
-	-	1	-	-	-	1	109
-	-	\$1,168	-	-	-	\$1,168	
-	-	\$199	-	-	-	\$199	
10,501	25,667	18,772	6,618	178	20	87,654	
\$3,275	\$4,825	\$5,168	\$4,936	\$5,805	\$7,049	\$3,737	
\$2,555	\$4,011	\$4,127	\$3,261	\$4,771	\$5,933	\$2,964	

Changes in Net Assets, Last 10 Fiscal Years

(\$ thousands)

	2010	2009	2008	2007
Additions				
Member contributions*	\$899,401	\$876,182	\$865,400	\$826,249
State of Illinois	2,080,729	1,451,592	1,041,115	737,671
Pension Obligation Bond proceeds	-	-	-	-
Employer contributions**	171,421	152,329	130,673	115,915
Investment income (loss) net of expenses	3,679,643	(8,688,286)	(2,014,902)	6,831,324
Total additions to/reductions from plan net assets	6,831,194	(6,208,183)	22,286	8,511,159
Deductions				
Benefit payments	3,927,838	3,653,714	3,423,982	3,111,753
Refunds	60,350	53,709	60,286	59,732
Administrative expenses	16,951	17,388	16,613	15,245
Other expenses	-	-	-	-
Total deductions from plan net assets	4,005,139	3,724,811	3,500,881	3,186,730
Changes in net assets				
Beginning of year	28,497,729	38,430,723	41,909,318	36,584,889
Net increase (decrease)	2,826,055	(9,932,994)	(3,478,595)	5,324,429
End of year	\$31,323,784	\$28,497,729	\$38,430,723	\$41,909,318

* Member contributions increased from 9.0 percent to 9.4 percent beginning in FY06. Also included are member contributions for purchases of optional service, early retirement, and upgrades to the 2.2 formula.

** Employer contributions include contributions from federal funds, for early retirement, and for the 2.2 formula. Beginning in FY06, it includes employer contributions for salary increases in excess of 6 percent used in final average salary calculations and for excess sick leave used for service credit.

Benefit and Refund Deductions from Net Assets by Type, Last 10 Fiscal Years

(\$ thousands)

	2010	2009	2008	2007
Type of benefit				
Retirees	\$3,749,666	\$3,486,697	\$3,268,108	\$2,965,356
Survivors	151,074	140,695	130,369	121,822
Disability benefits	27,098	26,322	25,505	24,575
Total benefits	3,927,838	3,653,714	3,423,982	3,111,753
Type of refund				
Withdrawals	17,149	17,357	17,280	17,147
Death benefits and excess contribution				
refunds paid to survivors	15,161	15,076	17,182	17,081
2.2 and optional service	15,050	11,013	14,082	14,145
Survivor contributions refunded to retirees	7,967	6,916	8,522	8,808
ERO and other	5,023	3,347	3,220	2,551
Total refunds	\$60,350	\$53,709	\$60,286	\$59,732

2006	2005	2004	2003	2002	2001
\$799,034	\$761,790	\$768,661	\$732,020	\$681,152	\$643,563
534,305	906,749	1,031,478	929,710	814,740	724,008
-	-	4,330,374	-	-	-
123,543	148,813	127,573	91,552	92,618	97,618
3,993,290	3,330,040	4,485,730	1,060,853	(723,987)	(1,015,256)
5,450,172	5,147,392	10,743,816	2,814,135	864,523	449,933
2,877,231	2,533,103	2,262,329	1,998,622	1,759,749	1,566,793
57,967	59,396	48,020	43,115	38,756	35,849
15,303	14,404	13,561	13,859	13,487	12,641
-	-	-	-	1,892	417
2,950,501	2,606,903	2,323,910	2,055,596	1,813,884	1,615,700
34,085,218	31,544,729	23,124,823	22,366,284	23,315,645	24,481,412
2,499,671	2,540,489	8,419,906	758,539	(949,361)	(1,165,767)
\$36,584,889	\$34,085,218	\$31,544,729	\$23,124,823	\$22,366,284	\$23,315,645

2006	2005	2004	2003	2002	2001
\$2,741,164	\$2,407,652	\$2,145,187	\$1,890,512	\$1,660,998	\$1,475,490
112,902	103,991	97,155	88,997	80,461	74,631
23,165	21,460	19,987	19,113	18,290	16,672
2,877,231	2,533,103	2,262,329	1,998,622	1,759,749	1,566,793
17,155	15,526	14,858	13,204	13,976	13,824
16,747	16,541	16,145	17,734	14,927	14,343
12,666	15,181	7,977	3,699	3,483	1,740
10,198	10,354	7,835	7,024	5,587	5,174
1,201	1,794	1,205	1,454	783	768
\$57,967	\$59,396	\$48,020	\$43,115	\$38,756	\$35,849



Special Education teacher Robin of Springfield with Natalie.

Employee and Employer Contribution Rates, Last 10 Fiscal Years

Fiscal Year	Employee Rate (%) ¹	Employer Rate (%) ²			Total ⁶
		State ³	School Districts for 2.2 Formula ⁴	School Districts from Federal Sources ⁵	
2001	9.00%	11.47%	0.58%	0.32%	12.37%
2002	9.00	12.16	0.38	0.35	12.89
2003	9.00	13.01	0.18	0.35	13.55
2004	9.00	13.98	0.58	0.40	14.96
2005	9.00	11.76	0.58	0.49	12.84
2006	9.40	6.75	0.58	0.31	7.64
2007	9.40	9.26	0.58	0.52	10.36
2008	9.40	12.53	0.58	0.58	13.69
2009	9.40	16.44	0.58	0.63	17.66
2010	9.40	22.56	0.58	0.82	23.96

1 Rate increase in FY06 was for the Early Retirement Option.

2 Employer contributions exclude contributions for Early Retirement Option.

3 State contributions increased through FY04 pursuant to statutory ramp schedule under 40 ILCS 5/16-158 (b-3). Pension obligation bond (POB) proceeds that were received in FY04 are not state contributions and are not included in this schedule. FY05 decline was due to calculation required under POB legislation. FY06 and FY07 rates were due to specific dollar appropriation specified in Public Act 94-0004 that were not based on the statutory ramp schedule. FY08 through FY10 rates are based on statutory ramp schedule.

4 Employer contributions for the 2.2 formula change were 0.3 percent of pay in FY99 and 0.58 percent of pay thereafter, with waivers for certain employers under collective bargaining agreements. From January 1, 2002 through June 30, 2003, 40 ILCS 5/16-158 (e) allowed 0.4 percent of the 2.2 contribution to be diverted to cover a new employer contribution for retiree health insurance.

5 Federal contributions above are expressed as percentages of total active member payroll. Through FY05, employers contributed 10.5 percent of pay as the employer contribution for members paid from federal sources. Beginning in FY06, the employer contribution rate paid on behalf of members paid from federal sources is the same as the employer contribution rate paid by the State of Illinois on behalf of members not paid from federal sources [7.06 percent in FY06, 9.78 percent in FY07, 13.11 percent in FY08, 17.08 percent in FY09, and 23.38 percent in FY10 with further increases according to the statutory schedule under 40 ILCS 5/16-158 (b-3)].

6 Totals shown are rates certified by the actuaries based on estimated payrolls and may not total due to rounding. Actual amounts collected do not equal amounts estimated by actuaries due to differences between estimated and actual payroll. Also, the total rate shown in FY02 is lower than the total contribution requirement certified by the actuaries because the diversion of the health insurance contributions that began in the middle of the year was not anticipated.

Demographics of Benefit Recipients and Active Members as of June 30, 2010

(excludes inactive members)

	Retirees			Disability Benefit Recipients			Survivors		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Under 20	-	-	-	-	-	-	28	24	52
20-24	-	-	-	-	-	-	10	13	23
25-29	-	-	-	-	6	6	2	-	2
30-34	-	-	-	-	13	13	2	2	4
35-39	-	-	-	3	16	19	14	7	21
40-44	-	-	-	6	55	61	7	14	21
45-49	-	-	-	14	38	52	17	25	42
50-54	24	33	57	26	113	139	56	83	139
55-59	2,447	6,104	8,551	44	236	280	106	233	339
60-64	7,831	16,130	23,961	45	187	232	245	473	718
65-69	7,015	12,636	19,651	24	71	95	306	680	986
70-74	4,719	7,851	12,570	9	45	54	334	887	1,221
75-79	3,685	5,474	9,159	10	40	50	402	1,082	1,484
80-84	2,455	4,410	6,865	8	21	29	386	1,235	1,621
85-89	1,145	2,981	4,126	-	15	15	396	915	1,311
90+	419	2,295	2,714	-	6	6	268	797	1,065
Total	29,740	57,914	87,654	189	862	1,051	2,579	6,470	9,049

Benefit Recipients by Type as of June 30, 2010

Monthly Benefit Range	Number of Recipients (all)	Type of Monthly Benefit					Survivor Monthly Benefits
		Age Retirement	Disability Retirement	Nonoccupational Disability	Occupational Disability		
Under \$500	6,569	5,234	7	1	-		1,327
\$500 - \$999	7,719	5,342	92	3	-		2,282
\$1,000 - \$1,499	7,340	5,166	236	20	-		1,918
\$1,500 - \$1,999	7,313	5,661	182	79	-		1,391
\$2,000 - \$2,499	7,133	5,932	94	87	2		1,018
\$2,500 - \$2,999	7,107	6,473	50	38	1		545
\$3,000 - \$3,499	7,743	7,364	35	28	1		315
\$3,500 - \$3,999	8,157	7,972	33	4	-		148
\$4,000 - \$4,499	8,171	8,114	14	3	-		40
\$4,500 - \$4,999	7,166	7,127	16	-	-		23
\$5,000 - \$5,499	5,561	5,531	11	1	-		18
\$5,500 - \$5,999	4,501	4,483	7	-	-		11
\$6,000 - \$6,499	3,650	3,640	3	-	1		6
\$6,500 - \$6,999	2,979	2,976	-	-	-		3
\$7,000 - \$7,499	2,291	2,291	-	-	-		-
\$7,500 - \$7,999	1,551	1,550	-	-	-		1
\$8,000 or more	2,803	2,798	1	1	-		3
Total benefit recipients	97,754	87,654	781	265	5		9,049

Summary Statistics, All Benefit Recipients, as of June 30, 2010

	Age Retirement	Disability Benefits (3 types)	Survivor Benefits
Average monthly benefit	\$3,737	\$2,045	\$1,409
Average age	69	59	76
Average years of service	28	17	N/A

Active Members			Total Retirees, Disabilitants, Survivors, and Active Members			Percent Distribution of Retirees, Disabilitants, Survivors, and Active Members		
Male	Female	Total	Male	Female	Total	Male	Female	Total
-	-	-	28	24	52	54%	46%	100%
1,874	6,265	8,139	1,884	6,278	8,162	23	77	100
6,280	20,145	26,425	6,282	20,151	26,433	24	76	100
6,286	18,510	24,796	6,288	18,525	24,813	25	75	100
5,844	16,288	22,132	5,861	16,311	22,172	26	74	100
5,360	16,402	21,762	5,373	16,471	21,844	25	75	100
4,169	14,837	19,006	4,200	14,900	19,100	22	78	100
3,974	15,799	19,773	4,080	16,028	20,108	20	80	100
3,741	14,930	18,671	6,338	21,503	27,841	23	77	100
1,798	5,752	7,550	9,919	22,542	32,461	31	69	100
534	991	1,525	7,879	14,378	22,257	35	65	100
171	201	372	5,233	8,984	14,217	37	63	100
40	44	84	4,137	6,640	10,777	38	62	100
10	10	20	2,859	5,676	8,535	33	67	100
-	1	1	1,541	3,912	5,453	28	72	100
8	11	19	695	3,109	3,804	18	82	100
40,089	130,186	170,275	72,597	195,432	268,029	27%	73%	100%

Subtypes of Age Retirement Benefits

Regular 2.2 Flat Formula	Graduated Formula	Actuarial Benefit Style	ERO (2.2 & Grad. Form.)	ERI (State or TRS)	Other	Age Retirement Total
882	1,831	2,509	5	5	2	5,234
728	2,131	2,340	49	78	16	5,342
842	1,954	1,646	400	280	44	5,166
961	1,716	1,233	1,186	537	28	5,661
1,079	1,541	762	1,621	886	43	5,932
1,383	1,243	440	2,170	1,192	45	6,473
1,846	1,135	290	2,625	1,417	51	7,364
2,299	1,142	205	2,908	1,332	86	7,972
2,364	1,097	197	3,017	1,317	122	8,114
2,262	949	136	2,709	958	113	7,127
1,810	817	94	2,049	658	103	5,531
1,422	711	61	1,624	575	90	4,483
1,204	514	53	1,315	480	74	3,640
1,015	428	27	1,145	304	57	2,976
750	370	22	906	200	43	2,291
533	231	12	600	132	42	1,550
983	542	29	940	211	93	2,798
22,363	18,352	10,056	25,269	10,562	1,052	87,654

Percentage of Age Retirement Benefits by Subtype

26%	21%	11%	29%	12%	1%	100%
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Average Benefit Payments for New Retirees Last 10 Fiscal Years

Retirement Effective Dates	Years of Service				
	Under 5	5-9	10-14	15-19	20-24
Period July 1, 2009 through June 30, 2010					
Average monthly benefit	\$280	\$670	\$1,228	\$2,121	\$2,947
Average final average salary	\$61,557	\$38,116	\$44,679	\$62,156	\$71,152
Number of retired members	144	312	304	335	495
Period July 1, 2008 through June 30, 2009					
Average monthly benefit	\$247	\$642	\$1,181	\$2,012	\$2,920
Average final average salary	\$55,946	\$39,118	\$42,853	\$57,824	\$70,216
Number of retired members	155	295	240	297	472
Period July 1, 2007 through June 30, 2008					
Average monthly benefit	\$228	\$623	\$1,077	\$1,836	\$2,713
Average final average salary	\$54,905	\$41,044	\$40,557	\$52,692	\$66,593
Number of retired members	112	197	256	251	400
Period July 1, 2006 through June 30, 2007					
Average monthly benefit	\$208	\$595	\$1,118	\$1,932	\$2,716
Average final average salary	\$55,395	\$40,331	\$46,226	\$56,872	\$66,645
Number of retired members	132	212	233	286	492
Period July 1, 2005 through June 30, 2006					
Average monthly benefit	\$210	\$515	\$1,139	\$1,744	\$2,509
Average final average salary	\$55,558	\$36,036	\$44,715	\$53,349	\$62,206
Number of retired members	114	202	202	199	376
Period July 1, 2004 through June 30, 2005					
Average monthly benefit	\$228	\$544	\$1,074	\$1,715	\$2,475
Average final average salary	\$59,538	\$39,038	\$44,000	\$52,488	\$61,882
Number of retired members	170	198	233	251	567
Period July 1, 2003 through June 30, 2004					
Average monthly benefit	\$208	\$575	\$1,052	\$1,635	\$2,359
Average final average salary*	-	-	-	-	-
Number of retired members	106	152	182	181	419
Period July 1, 2002 through June 30, 2003					
Average monthly benefit	\$206	\$522	\$960	\$1,573	\$2,350
Average final average salary*	-	-	-	-	-
Number of retired members	213	191	197	191	395
Period July 1, 2001 through June 30, 2002					
Average monthly benefit	\$198	\$509	\$898	\$1,486	\$2,140
Average final average salary*	-	-	-	-	-
Number of retired members	156	183	169	174	397
Period July 1, 2000 through June 30, 2001					
Average monthly benefit	\$191	\$468	\$910	\$1,398	\$2,057
Average final average salary*	-	-	-	-	-
Number of retired members	191	175	163	170	396

* The average for the final average salary by years of service are not available for periods before July 1, 2004.

Years of Service				All Fiscal Year Retirees	Average Age For All Fiscal Year Retirees	Average Service For All Fiscal Year Retirees
25-29	30-34	35-39	40+			
\$3,891 \$77,352 536	\$5,063 \$84,466 887	\$5,621 \$89,648 1,410	\$5,819 \$82,289 118	\$3,960 \$75,507 4,541	age 60	27 years
\$3,941 \$78,684 425	\$4,940 \$82,544 779	\$5,411 \$86,467 1,301	\$6,457 \$92,170 65	\$3,840 \$73,725 4,029	age 59	27 years
\$3,505 \$71,223 398	\$4,737 \$80,631 695	\$5,098 \$81,570 884	\$5,413 \$79,227 67	\$3,536 \$69,412 3,260	age 59	26 years
\$3,744 \$75,511 575	\$5,080 \$83,693 1,858	\$5,598 \$89,451 1,506	\$5,887 \$89,442 139	\$4,260 \$77,499 5,433	age 58	29 years
\$3,372 \$68,902 404	\$4,728 \$77,920 1,205	\$5,161 \$82,558 1,005	\$5,600 \$85,399 84	\$3,789 \$70,764 3,791	age 59	28 years
\$3,467 \$70,637 737	\$4,700 \$76,980 2,992	\$5,264 \$84,774 1,637	\$5,270 \$81,371 123	\$4,070 \$73,078 6,908	age 58	30 years
\$3,227 - 510	\$4,546 - 1,988	\$5,056 - 1,184	\$5,206 - 95	\$3,892 \$70,359 4,817	age 58	30 years
\$3,147 - 508	\$4,281 - 1,995	\$4,628 - 1,144	\$4,598 - 81	\$3,534 \$62,728 4,915	age 58	29 years
\$3,080 - 481	\$4,301 - 2,117	\$4,543 - 831	\$4,700 - 74	\$3,512 \$61,714 4,582	age 59	29 years
\$2,857 - 442	\$4,113 - 1,677	\$4,436 - 762	\$4,198 - 67	\$3,250 \$58,144 4,043	age 59	28 years

Principal Participating Employers

Participating Employer	City	Rank	Year ended June 30, 2010		Rank	Year Ended June 30, 2001	
			Covered Employees with Subs	% of Total TRS Mmbrshp.		Covered Employees with Subs	% of Total TRS Mmbrshp.
School District U46	Elgin	1	3,167	1.9%	1	2,937	1.9%
Indian Prairie CUSD 204	Naperville	2	2,763	1.6	3	1,972	1.3
Plainfield SD 202	Plainfield	3	2,533	1.5	-	-	-
Rockford School District 205	Rockford	4	2,453	1.4	2	2,232	1.5
Naperville CUSD 203	Naperville	5	1,725	1.0	4	1,579	1.0
Community USD 300	Carpentersville	6	1,712	1.0	8	1,282	0.9
Springfield SD 186	Springfield	7	1,676	1.0	6	1,450	1.0
Valley View CUSD 365	Romeoville	8	1,611	0.9	-	-	-
Schaumburg CCSD 54	Schaumburg	9	1,538	0.9	7	1,359	0.9
Waukegan CUSD 60	Waukegan	10	1,455	0.9	-	-	-
Peoria SD 150	Peoria	-	-	-	5	1,565	1.0
Community Unit SD 200	Wheaton	-	-	-	9	1,259	0.8
Palatine CCSD 15	Palatine	-	-	-	10	1,172	0.8
Total, largest 10 employers			20,633	12.1%		16,807	11.1%
All other (1,020 employers in 2010*; 1,044 employers in 2001)			149,642	87.9%		133,976	88.9%
Grand total			<u>170,275</u>	<u>100.0%</u>		<u>150,783</u>	<u>100.0%</u>

*Other Employers by Type as of June 30, 2010	Number of Other Employers	Other Covered Employees
Local school districts	857	141,665
Special districts	140	7,316
State agencies	23	661
Total, employers other than largest 10	<u>1,020</u>	<u>149,642</u>

Total Employers by Type as of June 30, 2010	Total Number of Employers	Total Covered Employees
Local school districts	867	162,298
Special districts	140	7,316
State agencies	23	661
Total, all employers	<u>1,030</u>	<u>170,275</u>